The
American Economic Review

VOL. X SEPTEMBER, 1920 No. 3

PRICE ECONOMICS VERSUS WELFARE ECONOMICS

What is the central theme of economics? Or perhaps it would be better to ask, "What should it be?" From the beginnings of political economy as a separate branch of study, two more or less conflicting conceptions of the subject have been present in the minds of men: According to one conception the aim of economics is to study prices, profits, and trade; according to the other, it is to study the relations between wealth and human welfare. Throughout the history of economic doctrine these two conceptions of its purpose have been frequently confused in thought. Even writers who have sought to adopt definitely one of these conceptions have later confused it with the other. Failure to recognize the fundamental difference between the two conceptions of the subject has caused much discussion at cross-purposes. This is not a matter of mere historical interest in our study, one of the childish errors now outgrown and therefore easily to be viewed with gentle indulgence; on the contrary, it is a difficulty still pervading contemporary economics, often despite honest attempts to keep the two views distinct and to do justice to them both. To-day there are pretty well defined differences of opinion on this subject among capable economic students. The majority of economists, however, confined to their own narrower fields in this day of specialization, have really not faced the question, but in their thought on economic questions, simply imply an attitude and assume a philosophy respecting it without consciously defining either. Yet clear convictions in this matter are of primary importance to the theoretical progress and to the practical results of economic study.

Every serious economic student should face this question and seek to make a decision upon it.[1] As an aid to this end we shall attempt in this paper to trace the growth of the commercial conception of economics from the time of Adam Smith to its apogee in J. S. Mill and to describe the contemporary opposition to it. In a following paper we shall examine more recent opinions and seek to draw conclusions of a positive nature. The movement of thought which we are tracing, while it was more or less paralleled

in every other advanced country, appeared first in England, was more clearly marked, and was carried to more typical extremes there than elsewhere. We shall therefore in this survey limit our attention almost entirely to English writers.

Adam Smith, in this matter, as in most others, was somewhat eclectic, his treatment containing the germs of all the later divergent opinions. In spirit and in general doctrine, however, he shows himself to be most of the time a welfare economist rather than a commercial or price economist. The *Wealth of Nations,* primarily an essay in economic art, centers about the one purpose of showing the futility of the policy of state interference as it had developed in the countries of Europe. But when arguing for laissez faire, he is thinking of results to the whole people, rather than identifying personal judgment of price and individual commercial gain with general welfare. It happened that the policy of national interference with industry had been interwoven for nearly two centuries with mercantilism in Europe, and mercantilism had skillfully "camouflaged" its plea for countless favors to powerful special interests in the commercial classes, under the guise of a philosophy and policy to enrich the nation by increasing and maintaining the stock of precious metals. Therefore, to show that monetary price was not a true index to wealth or national well-being was directly in line with the task Smith had set for himself. He did show this at every opportunity.[1]

Smith more easily could distinguish between monetary prices and national wealth because of his use of the word "price" in a broader sense than that which became prevalent among his followers,[2] and from the first he contrasted "the price of commodities" in labor and in money.[3]

[1] For example, book I, ch. 5, where is developed the distinction between "the real and nominal price of commodities and labor," showing that the laborer may at different times lay down "his ease, his liberty, and his happiness" in return for very different quantities of goods. In book IV, ch. 1, he gives an extended proof that money is no true index to national wealth, and multiplying the precious metals is not "the great object of national industry and commerce" (p. 341). In book I, ch. 8, section IV, he shows how "the real recompense of labor" had been increasing throughout the eighteenth century, and expresses his own satisfaction in this improvement in the condition of the "greater part" of the members of political society.

[2] See my study of the "The Definition of Price," in AMERICAN ECONOMIC REVIEW, vol. II, Dec., 1912, pp. 783-813, with reference to A. Smith, especially pp. 785, 800.

[3] See title to chapter 5, book I.

In the passages cited and in numerous others Smith takes either the broad national or social view, as opposed to that prevalent in certain commercial circles, or the democratic view in sympathy with a diffused popular welfare, as opposed to the profits merely of the manufacturing or of the employing class.[4]

Smith also at some points gave clear recognition to non-monetary motives (in modern phrase, the psychic income elements) in his extended discussion of the choice of occupations and of investments by laborers and capitalists respectively.[5]

And yet we may be too generous in judgment if we overlook in Smith certain ideas and terms which were well fitted to develop, in the thought of his successors, a narrower commercial conception of economics. It is familiar history that his doctrine of non-interference with industry came to be the comfortable defense of every evil of the new manufacturing plutocracy. Moreover the very practicality of Smith's treatment led into the market place, and directed attention to "exchange value" rather than to the underlying psychology of choice and of motives in industry. He almost entirely ignored any psychological elements in economic problems excepting those involved in the buying and selling of goods and services on a market. He contributed also to the confusion between "value in use" as the desirability of an object for a person's own use, with utility as real importance to welfare, thus dropping out from value and utility almost all of the fundamental welfare considerations. We cannot pursue this thought here, for it would lead us too far afield, but undoubtedly this fact gave a freer field to the commercial aspects of political economy in Smith's treatment and still more in that of his successors.

The *Wealth of Nations*, immediately on its appearance, was

4 Smith's reference to "the invisible hand" which leads men, while pursuing their own gains, to promote "that of the society" has been perhaps too much cited as a proof that Smith believed in the divine harmony between all acts of commercial self-interest and "the public good." (Book IV, ch. 2.) The context shows that his immediate purpose was to discredit the professions of benevolent interest on the part of those who ask for tariffs and bounties favorable to their own businesses. He wished to show, using a bit of sarcasm, that the result will be at least as good, and probably better, if men are permitted to carry on foreign trade as they will, instead of being forbidden by legislation in the interests of another group seeking a monopoly of domestic industry.

5 See especially book I, chapter 10, "Wages and profit in the different employments of labor and stock."

highly valued by men of letters, but it did not gain wide influence and popular reputation until after the economic work of David Ricardo. We have contemporary testimony to the effect that: "Surprising as it may appear, it is no less notorious that up to the year 1818 the science of political economy was scarcely known or talked of beyond a small circle of philosophers; and legislation, so far from being in conformity with its principles [doubtless meaning laissez faire] was daily receding from them more and more.

The years from 1776 to 1815 appear pretty barren in the history of English economic thought, for though there were in that period many articles and books on political and social reform, they have mostly fallen into oblivion.[7] Malthus, the one name that stands out most clearly in the midst of this obscurity, was, by virtue of the one great theme of his life, the population problem, a welfare economist primarily, and his attention was fixed upon material conditions of well-being, extent of territory, fertility, means of production, density of population, and general levels of production, as later embodied in the law of diminishing returns.[8]

David Ricardo's main work appeared in 1817 and it is no mere chance that the beginning of the great increase of popular interest in economics indicated above should, by observers, have been dated the following year. Ricardo and Malthus, though friends, thought on most subjects in different terms, and saw things from different angles; for Ricardo was, beyond any other economist in the line of orthodox economic succession, the most habituated to the ideas of the business world, the most familiar with the monetary mode of expressing social and economic valuations, the most commercially-minded, the most lacking in any previous training along philosophical or social studies that would give breadth of vision or perspective. It is a matter of no small significance that his ablest and most enduring economic writing was in monetary theory, and that he was the first (so far discovered) in the list of

[6] Writer in *Westminster Review*, cited by Ingram, *A History of Political Economy*, p. 145, and by A. Toynbee, *The Industrial Revolution*, p. 4.

[7] See the characterization of this period and explanation of its obscurity, Hamilton, "Place of Value Theory in Economics," *Journ. Pol. Econ.*, vol. 26, p 235.

[8] See E. Cannan, *Theories of Production and Distribution*, p. 130, also the writer's paper, "Population or Prosperity," American Economic Review, Supplement, vol. III, pp. 5-6.

recognized economists to use an exclusively monetary definition of price of any variety.[9]

It was chiefly Ricardo who gave to the liberal economic doctrine, handed down from Adam Smith, both its appearance of theoretical completeness and its pronounced commercial character, which doubtless fitted it better to gain acceptance in practical affairs in England. Ricardo's conception of the economic process has never been surpassed in simplicity. We need not delay the economic reader with a repetition of the familiar outline of his system with its three factors, three shares, and three social classes. We note only his general social sympathies.

Labor's share in the distribution of the national income, Ricardo explained by a subsistence theory of wages combined with a wage-fund theory (both taken from Malthus). Laborers in any case will in the long run get just enough to live on (though somewhat casually it was recognized that a higher standard of comfort might modify this). In the short run they can get only the amount made possible by the wage-fund in the hands of employers. As between the other two classes, the landlords and the capitalists, who share the remainder, Ricardo's sympathies were with the latter. He saw in the landlords (although he became one himself) the shameless "food profiteers" of the Napoleonic wars whose prosperity was bought at the expense of the commercial classes.

Hostile to the landlord class, he was merely indifferent to the needs of the workers. Ricardo was a kindly man,[10] supposed even to cherish the belief that he was a philanthropist,[11] and expressions of hostility to the laboring class are strikingly absent from his writings, but he seemed hardly to have thought of them at all as a part of the human problem. Speaking of Ricardo's views Adolf Held has remarked, "The laborer is regarded not as a member of society, but as a means to the ends of society, on whose sustenance a part of the gross income must be expended, as another part must be spent on the sustenance of horses."[12]

Ricardo's theory of distribution must be understood in connection with the group of assumptions, or creed, of the orthodox economists in relation to laissez faire, etc., as set forth below.

[9] See article cited, "The Definition of Price," p. 787.

[10] Toynbee, *op. cit.*, p. 7.

[11] See Gide and Rist, *Histoire des doctrines économiques* (1909), p. 137.

[12] Ingram, *op. cit.*, p. 135.

According to this view sympathy would be wasted. Labor was getting all it could, and the attempt to diminish any evils, however glaring, could but aggravate them. Employers were to be praised for all the good, but were blameless of any evil. There was a fatalism about the whole matter. This creed did not originate with Ricardo but rather it was the business man's interpretation of Adam Smith's doctrine of laissez faire. It had already become the accepted faith of the commercial classes, expressed in legislation on various labor problems after 1800 and culminating in the repeal of the Combination Laws in 1824.[13] Ricardo's theory of distribution was fitted neatly to advance the practical needs of his commercial associates. In this he was doubtless quite honest and unconscious of the real situation.

Ricardian economics was in full vigor from 1818 until 1860, and has continued to have great, though declining, influence in professional economic circles even to the present time.[14] In that period, and in the one country, England, a strict price economics was dominant as never elsewhere, or at any other time.[15]

The leading characteristics of the Ricardian, or so-called orthodox, or classical school of economics, at the period of its greatest influence may be grouped under three headings, omitting many minor or related matters.

1. Implicit belief in laissez-faire.

2. Commercial sympathies and adoption of the employers' point of view in respect to economic questions.

3. Monetary standards; price-measurements taken as ultimate in judgments of wealth and welfare. All these may perhaps be regarded as but phases of the first, as it would be interpreted by the successful commercial class of a rapidly developing industrial society such as England was at that time. Let us examine these three ideas somewhat more closely.

1. Belief in laissez faire became an unfaltering faith in the harmony between the general interests and the interests of any individual as he could advance them by his own action in business. This reached its extremest statement in Bastiat's *Economic Har-*

[13] See specifically on this, Webb, *Trade Unionism*, pp. 53-56.

[14] See A. Toynbee, *op. cit. passim;* Ingram, *op. cit.*, especially pp. 122-162, treating the period from Ricardo to J. S. Mill inclusive. This subject will be more fully treated in the sequel to this paper.

[15] For statement particularly of the value theory of this period see Hamilton, *op. cit.*, *Journal of Political Economy*, vol. 26, pp. 236-245.

monies, but it is implicit in the whole body of doctrine. Expressed in another way, this was almost absolute faith in the benign results of free competition, particularly as opposed to any measures directed toward limiting freedom of contract among laborers. It was believed that no efforts other than those ensuring free competition, among workers and among other industrial agents could really promote the interests of the workers. This principle, however, was somewhat modified in application by experience showing that some interference, such as shortening the working day, did not reduce production or profits. There was no place for the consideration of popular welfare in such a scheme of thought where all industry was ruled by inexorable natural law, and self-aggrandizement by profit-making was held to be the truest public service.

There was in all this cult of laissez-faire a naïve acceptance of all existing artificial economic arrangements as the natural state of things; therefore there was obliviousness to the many interferences with free competition working on the side of property, inherited position, education, the limited class of employers, the powerful aggregations of wealth, and the whole system of institutions in the then contemporary English society.

2. The employer's point of view was thus implied in the principle of laissez-faire. It followed that all problems were considered primarily from the standpoint of the employers, the counting-house, and profits. The employers (not the ultimate consumers) were believed to be the source of employment for workers; with this easily went the wage fund doctrine, in which the capital of the employer is viewed as the source of wages, and the increase of the employers' capital, therefore, is the one effective way, in the long run, to improve the laborers' condition. The interest of economic study was primarily in production considered not as a goods-producing, but as a profits-producing process, that is for its effects on distribution. There was interest in exchange as a market process conducted by employers; there was hardly any interest in "consumption" of goods by the masses, as the true object of industry.

3. Closely connected with the foregoing was the expression and measurement of economic forces in terms of the unit of price. There was neglect, often the complete ignoring, of other than pecuniary motives in economic action. A treatment of questions from the price standpoint was believed to be adequate within the

scope of political economy; therefore "general welfare" interests and judgments were out of place except as partially reflected through the prosperity of the employing class. With this went the belief that all the moral issues of industry should be entrusted to price payment, the employer being a benefactor to the workmen in providing employment for them on any terms that they (the sufficient guardians of their own welfare) were willing, or could be made, to accept.

The "school" of price economists in England, by its comparative unity and compactness, exercised a powerful influence over the public opinion of the day. No other equally well organized school of thinkers was there to stand against it. It for a time dominated the thought of the educated upper classes of England and America (and still does in large measure), but it never succeeded in fully winning over the consciences or the intellects of the non-commercial public.

It might well repay the students of this subject to pass in review the voluminous evidence that could be brought to prove that these ideas were held almost unquestioningly by the dominant group of economists of that period. It may serve our purpose to observe how, from several sides, arose opponents, who with one accord attributed this general *creed* to the "orthodox school."

This opposition came from at least six different sources (if we include the modifications of doctrine arising among Ricardo's followers).

I. The factory law reformers, a combination of Tory landlords and of humanitarian reformers, pushed through a remarkable series of parliamentary acts even while Ricardianism was at its height and was gaining its greatest triumphs in the success of corn-law reform. Ricardo himself had helped in 1824 to repeal the combination laws which injured the workmen but, consistently with his price philosophy, he opposed the factory acts.[16] The authority of the laws of political economy was constantly invoked against the passage of these acts. "Free traders" favoring the repeal of the corn laws regularly lined up against factory legislation, which was mainly, though not always heartily, supported by the Tory landlords.[17] No man ranked as an economist appears

[16] Toynbee, *op. cit.*, p. 130.

[17] As to the period 1841-1847, see Hutchins and Harrison, *A History of Factory Legislation* (2d ed., 1911), p. 61-62; Cooke-Taylor, *The Factory System* (2d ed., 1912), p. 58, as to act of 1816; p. 79, as to act of 1833.

to have taken any part in their favor, and some, notably Nassau Senior,[18] put themselves strongly on record as opposed to any such interference with the workings of competition.[19]

Macaulay, not posing as an economist but appealing to experience, made a strong speech in favor of the act of 1847,[20] while Joseph Hume, John Bright, J. A. Roebuck, Cobden, Sir James Graham, and others, speaking in the name of the "authoritative" political economy, opposed it.[21] It is interesting to note that in this circle there was between 1847 and 1860 a great change of sentiment, a conversion to shorter hour legislation, simply because experience showed that the shorter working day had not reduced the output per worker, indeed might even increase it, hence, did not reduce profits.[22] The change of sentiment extending to a large proportion of the manufacturers themselves was manifest at the time of the passage of the act of 1864 extending the principle to many enumerated industries.[23] Thus against its will the Ricardian price economics (as represented by the leading economists in England, and by numerous American economists continuing most nearly the tradition of the "orthodox" English school) became converted to interference with freedom of contract in this one class of cases, for reasons consistent with its faith in employers' profits as the index or as the source of general welfare.

It is well to recall that throughout the period of which we are speaking Great Britain was becoming less and less self-supporting agriculturally, and, correlatively, was more and more expanding her foreign trade. Further increase of exports, the opening of new and larger markets for British manufacturers, appeared to the commercial eye to be the one objective test of wisdom in eco-

18 In 1844, by his famous last hour argument against the ten hour act. Hutchins, *op. cit.*, pp. 88-89.

19 As late as the discussion preceding the passage of the act of 1878, from 1873 on, Professor Fawcett, "and other doctrinaire liberals" advocating a strictly logical equal treatment of women, equal responsibilities and equal privileges for both sexes, opposed legislation in their favor. (See Cooke-Taylor, *op. cit.*, p. 110.) Fawcett spoke, however, in favor of the Factory Acts extension act of 1867 on the ground that it did not involve "any contravention of the principle of economy in legislation." (Hutchins and Harrison, *A History of Factory Legislation* (2d ed., 1911), pp. 166-175, 185.)

20 In May, 1846; see Hutchins, *op. cit.*, p. 94.

21 Hutchins, *op. cit.*, p. 95.

22 *Idem*, p. 122.

23 *Idem*, p. 155; see also p. 160.

greatest and most abiding influence was destined to be through the medium of another personality. John Ruskin, who had already gained a precocious reputation as an art critic, began to be moved, as early as 1848, when less than thirty years of age, by the political and social opinions of Carlyle.[35] He attempted seriously to study the current political economy, and came to the belief that "nobody knows anything about it."[36] His thoughts began to take shape in essays and lectures, and appeared principally in collections under five titles between the years 1860 and 1872, beginning with *Unto this Last* and concluding with *Fors Clavigera.* His denunciation of competition and of price as the standard of weal was as scathing as that of Carlyle. In his economic writings there are doubtless inconsistencies, fallacies, and practical absurdities, but there is a deep spirit of conviction and a lofty ideal of the true aim of all industry as the manufacture of "souls of good quality." His economic doctrine is best summed up in the sentence, "That country is the richest which nourishes the greatest number of noble and happy human beings." He strikes off in a phrase the same contrast that has been heard since his time, between "mercantile economy, the economy of 'merces' or of 'pay,' " and political or national economy. Ruskin emphasized the esthetic values as Carlyle did not, and more than Carlyle the dominance of moral values over the pecuniary values. Like Carlyle he was reactionary in his romantic admiration for the past, and was mainly negative; but was somewhat more positive than Carlyle in his philosophy of social needs and action.

Ruskin shocked many of his contemporaries by his economic and social views, and, great as was his literary reputation, his contributions were for a time refused by the publishers because the public would have no more of "such rubbish."[37] But there can be no question that his influence was immediately great and has continually grown. Probably few would dispute the judgment that "Ruskin as a social teacher, wields a more intense and impressive influence than any of his contemporaries."[38] This he has done through the medium of his intellectual disciples. Among

[35] J. A. Hobson, *John Ruskin, Social Reformer,* p. 48.

[36] *Idem,* p. 51.

[37] The Magazine was Fraser's; the essays, of which a part had been published, were those later embodied in *Munera Pulveris.* See Hobson, *op. cit.,* p. 56.

[38] J. M. Robertson, *Modern Humanists,* p. 194.

them was A. Toynbee, said to have been the foreman in Ruskin's amateur road building gang of Oxford students.[39] Another disciple is J. A. Hobson, Ruskin's admiring biographer.[40] Probably in some measure touched by his influence are all the modern English reformers of the Fabian school, and the line of his influence came to blend (paradoxically, because of his non-religious attitude) with those of Christian socialism and the Oxford movement.

There is some temptation to link the name of Emerson with those of Carlyle and Ruskin to form a great triumvirate of moral protest against the price economics. His fine positive epigram, "The best political economy is the care and culture of men," surpasses all the denunciatory phrases of either Carlyle or Ruskin in its perfect fitness to characterize an economics of Manhood as opposed to one of Mammon. Emerson, from the time of his trip to England and his personal meeting with Carlyle in 1833, was in touch with him by correspondence for nearly forty years, and cherished a great admiration for him. Emerson's writings abound in judicious suggestions for the wise use of material means, but the circumstances of America favored the cult of the individual, and Emerson at times commits himself to a doctrine of laissez faire and of economic harmonies that would have satisfied the most orthodox of his contemporaries, the Ricardian economists.[41] Emerson's usual point of view in his philosophy is that of individual conduct and culture rather than that of social polity. But he would have the individual large-minded and not forgetful of his fellows.

III. A third powerful protest against the then dominant price economics came from the English Christian socialists. This group was formed in the stormy days of April, 1848, when London was near to a state of revolution. The movement then started by Charles Kingsley and a group of churchmen of whom the intel-

39 See R. A. Woods, *English Social Movements* (1891), p. 82.

40 *John Ruskin, Social Reformer,* 1898.

41 *E.g.* see *Emerson's Works,* Little Classics edition, Conduct of Life, page 75, in essay on "Wealth"; praise of self-reliance as the cause of English prosperity; and page 86 a remarkable paragraph beginning: "Wealth brings with it its own checks and balances. The basis of political economy is non-interference. The only safe rule is the self-adjusting meter of demand and supply. Do not legislate. Meddle, and you snap the sinews with your sumptuary laws," etc.

lectual leader was Frederick Denison Maurice, is thus characterized by Dean Stubbs:[42]

The Christian Socialist Movement . . . which undoubtedly in the latter half of the century has done so much, not only to promote a more brotherly spirit between rich and poor—'the two nations into which,' according to the well-known phrase in Disraeli's *Sybil,* 'England was divided'—and to create a desire at least on the part of the more cultured classes, to seek for a more Christian, and therefore more reasonable, solution of the social and labour problem, but also to foster the growth of the great industrial coöperative societies, whose success promises so much for the industrial future of the country, and points in all probability to the direction in which lies the ultimate solution of the problem of Labour and Capital.

English Christian socialism was in certain ways a development of the "Oxford movement" in the Church of England, which in a somewhat wider aspect was "the Anglican revival," though "the two terms are by no means convertible.[43] The name Christian Socialism was adopted in 1850. These theological opponents of the dominant price economics reached many conclusions in substantial accord with those of the secular moralists of Ruskin's school. In an early tract[44] they "protest against that idolatry of social mechanism, which imagines society as a mere assemblage of wheels and springs, and not as a partnership of living men, which takes account of the form alone and not of the spirit which animates it." But apparently there is a fling at Carlyle in the protest "against that idolatry of individual will . . . which looks for all social improvements to the mere genius of some mighty leader."[45] Kingsley still had hope, however, "that political economy can and will learn how to cure these evils," but impatiently declared that "the man who tells us that we ought to investigate nature, simply to sit still patiently under her, and let her freeze, and ruin and starve and stink us to death, is a goose, whether he calls himself a chemist or a political economist."[46]

Many men active both in church and in labor movements in the following forty years were in this group. They were leaders in advancing the coöperative movement and in forming the Coöperative Wholesale Society in 1864; they founded in 1876 the

[42] *Charles Kingsley and the Christian Social Movement*, p. 103-104.
[43] Stubbs, *op. cit.*, p. 15.
[44] Tract V., in 1850; cited by Stubbs, *op. cit.*, p. 139.
[45] *Op. cit.*, pp. 139-140.
[46] *Idem*, p. 141.

Guild of Saint Matthew, composed of members of the Anglican clergy, and, a few years later, the Christian Social Union. Their influence may be traced in the notable statement by two hundred Anglican bishops at the Lambeth Conference in 1897. The list of men of influence active in the Christian socialist movement or strongly affected by it would be a long one, including Thomas Hughes, Arnold Toynbee, and Canon Barnett of Toynbee House. The University Settlement movement in England had its origin and much of its development at the hands of this group of men. The total influence of the Christian Socialist opinion, penetrating, as it has, into every corner of middle and upper-class thought, liberal and conservative, has surely been tremendous, and contributed largely to the discrediting of the orthodox price economics.

IV. A fourth protest against the assumptions of price economics came from the ranks of the laborers, from unorganized doubtless as well as those organized in trade unions, though only the trade unions voiced their protest audibly. The issue in this case was as to the power of unions to raise wages. The price economists' counsel of non-interference here found its main theoretical support in the wages fund, though closely fitting into this were their theories of the accumulation of capital, and of the principle of population. Together these completely denied the power of trade unions to raise wages in any general way or excepting at the cost of other laborers. The scholarly historians of English trade unionism have all but completed this part of our present task.[47] While refuting and condemning "the classic economics," the Webbs preserve a judicial attitude by suggesting that its theory of wages was more incidental and subordinate than is the case today, that its thought was directed to other problems, and that certain conditions peculiar to that day gave much plausibility and fitness to the then current wage doctrines.[48] But the modern verdict is summed up in the words of an Oxford professor, successor in the chair once held by Nassau Senior: "In the matter

[47] Sidney and Beatrice Webb, *Industrial Democracy* (1897), chapter on "The Verdict of the Economists," p. 603; see also A. Toynbee *op. cit.*, pp. 158-159.

[48] *Op. cit.*, p. 617. See also E. Cannan's clear characterization of the peculiar fitness of the Ricardian economics to aid in some then current controversies, notably those of the reform of the poor law and the repeal of the Corn Laws. *Theories of Production*, etc., pp. 391-2.

of unionism, as well as that of the predeterminate wage-fund, the untutored mind of the workmen has gone more straight to the point than economic intelligence misled by a bad method."[49]

No doubt this attitude of authoritative economics toward unions was largely responsible for generating among the better organized, more intelligent workers, both in England and in America, that hostility they have shown toward anything that goes by the name of political economy.[50] This hostility has always been mingled with something akin to contempt, for the reason that events had convinced the world of the error of "the economists," a name which to the workers' minds, covers all middle class theorists on labor questions. This feeling still lingers even after a great change has occurred in economic and in public opinion.[51] A new generation of "economists," with different training and antecedents, has in some measure got a sympathetic understanding of labor problems, and has gained the confidence of many of the leaders of labor, and thereby has incurred the suspicion in some cases, and the hostility of the more uncompromising members of the employers' group, both in America and in England.

[49] *Op. cit.*, page 653, quoting F. Y. Edgeworth, *Mathematical Physics*, p. 45. Professor F. W. Taussig, while showing that the orthodox writers had very vague views as to the "precise meaning of limits of the wage-fund" (*Wages and Capital: An Examination of the Wages Fund Doctrine* (1896), pp. 212-213), implies that at least until after John Stuart Mill they did not use the wages fund against trade union efforts. He says that they did not propound "an unalterable wage fund . . . for the confusion of the unionists" and that their spirit "is by no means of that intolerant sort" toward trade union efforts that the tradition as to the tenets of the school "would lead us to expect." Professor Taussig's first reference is to Robert Jones of whom Professor Seligman has shown ("On Some Neglected British Economists," *Econ. Journ.*, vol. 13, pp. 10-12) that while he "originated the theory of wages usually ascribed to Ricardo," he did not draw from it by any means the same conclusion, and disagreed with Ricardo's view in many particulars. Professor Taussig's only other reference in support of his view is to McCulloch; tolerant expressions are cited from his *Essay on Wages* (1825), but no positive condemnation of trade union efforts is said to occur in his *Political Economy* or in his other writings up to 1854 (the second edition of his *Essay on Wages*). But this apparently overlooks other passages cited by the Webbs (*Trade Unionism*, pp. 606-607) from McCulloch's article on "Combinations" (1823) and his "Treatise, etc.," 1851.

[50] See Toynbee's definite statement, *op. cit*, p. 160.

[51] In England about 1875; see Webb, *Trade Unionism*, p. 615.

V. The various characteristics of the Ricardian economics may be modified moderately or more extremely. The alternatives to its theory of value, to its theory of distribution, or to its commercial class sympathies are not necessarily their direct opposites in every respect. The groups above mentioned reacted in various degrees from the dominant commercial economics. But almost immediately after the formulation of Ricardo's system more extreme protests against it were voiced by writers who are now denominated socialistic. The extreme reaction came naturally in England, both because the evils of capitalism first showed themselves there most clearly, and because the philosophy of the capitalistic economy was there first given its extreme formulation in "orthodox" economics.

The protest by contemporary socialistic thinkers against the Ricardian commercial economics did not bulk so large in the thought of influential circles at the time as did that of any one of the groups heretofore mentioned. But in its portentous possibilities of later growth, increasing in geometrical ratio even to the present moment, the socialist protest might well be said to outweigh all the others in significance.[52] In volume of publications, also, this protest bulks larger than any of the others. Hundreds of socialistic books and pamphlets were published in England in the first half of the nineteenth century and over a hundred different periodicals were started, some of which survived for many years. These publications dealt with all aspects of Owenism, coöperation, chartism, and communism, but have a common quality that warrants grouping them together as the literature of radical protest against the Ricardian commercial economics.[53]

We are accustomed to associate the extremest form of the socialist doctrine with the name of Marx, but the first edition of his main book *Das Capital* did not appear until 1867, some seventeen years after he had come to live in England; and the earlier work

[52] See Professor H. S. Foxwell's list of writers in his introduction to A. Menger's *The Right to the Whole Produce of Labor* (first German ed., 1886) English translation, 1899, p. xxvii. Especially significant are the following whose writings fall at or within the dates indicated, mostly after Ricardo's work appeared: William Godwin, 1793-1831; Charles Hall (published 1805 but controverted in 1821, and reprinted 1850); William Thompson, 1824-1830; John Gray, 1825-1848; Thomas Hodgskin, 1825-1832; J. G. Bray, 1839.

[53] The classified list of this literature fills 78 pages of the English edition of Menger, including, however, a small proportion of non-socialistic studies and criticisms of this movement.

of which it was a continuation, *Zur Kritik der Politischen Oekonomie*, was first published in 1859. Careful study has shown that all of Marx's essential ideas had been advanced and some of them much better elaborated by others a third of a century earlier, notably by Thompson.[54]

The exaggeration, the extreme class bias, and the dogmatic assertion of the commercial economics made the Marxian theory not only possible but, as a matter of psychology, inevitable. Ricardo's assumptions, errors, and abstractions contained in them not only the provocation to moral reaction, but the logical seeds of the Marxian "scientific" theory of value. When Marx begins to wane in his fervor and indignation, he needs but to recall some such grotesque "orthodox" economic conception as Senior's "last hour" argument in favor of the longer working day, to recover all his irony and scorn. He refers to Senior as this "bel-esprit of English economists, well known alike for his economical 'science' and for his beautiful style."[55] It is the irony of fate that these radical contemporary opponents of Ricardo have come to be designated as "the Ricardian socialists."[56]

VI. Our survey of the forces tending to discredit and to modify the commercial economics would be incomplete if we failed to add a sixth item to our list, namely a gradual change of opinion among the liberal middle-class economists themselves. There were, within the body of doctrine of the orthodox economics, germs of internal disintegration, or, to put it more gently, forces of change and further development. Throughout the whole period when the orthodox economics was most completely dominant (about 1815 to 1860) voices were raised from time to time in protest against this or that theory or assumption. Altogether the list of such dissenters is a notable one, including Malthus, Torrens, Richard Jones, Sismondi, Craig, Bailey, Cotterill, Lloyd, Ravenstone,

[54] See Menger, *op. cit.*, p. 102. Professor Foxwell thinks it conclusively proved "that all the fundamental ideas of modern revolutionary socialism, and especially of the Marxian socialism, can be definitely traced to English sources." (*Op. cit.*, p. xxvi.)

See *e.g.*, Foxwell, *op. cit.*, pp. xl, lxxxiii, and Menger, *idem*, p. 39; see also Thomas Kirkup, *A History of Socialism* (1892), pp. 143, 146-147, expressing a verdict that is now scarcely disputed.

[55] *Capital*, ch. 9, sec. 3.

[56] Foxwell, *op. cit.;* also Seligman, on "Some Neglected British Economists," *The Economic Journal*, vol. XIII, p. 35.

Read, Longfield, and others.[57] But though right was with them and time has vindicated their opinions, they had no cumulative effect. The circumstances of the time seemed to conspire to give to the commercial school, despite its lack of organization, the leadership of opinion up to 1846 (the repeal of the Corn Laws) and then, for another period of some twenty years to enable it to enjoy the remarkable prestige won by this success and by the prosperity of the nation that followed.[58]

This was the Augustan age of the classical economics, even while many forces were at work weakening its moral and intellectual supports. Contributing largely to the authority of the dominant political economy in this period was the treatise of John Stuart Mill, published in 1848, which with "its popular qualities and apparent completeness," as E. Cannan expresses it, gave a look of unity and finality to the whole group of doctrines. But the work contained within itself many conflicting elements, most notably two: the attempt on the one hand to reformulate the theory of value, and on the other to humanize or socialize Ricardian individual economics by the consideration of projects for betterment, such as coöperation, land reform, etc. The Ricardian economics of J. S. Mill was that learned when he was a mere boy, from his own father. For a long period before writing his book J. S. Mill had given little thought to scientific economics. As a most able English critic says: "Mill's structure of the theories of production and distribution, though plastered over with a fresh stucco of explanation and limitation, had been built twenty years earlier."[59] Says another, "It is, in scientific substance, little or nothing more than an elegant exposition of the Ricardian economics."[60] It incorporated all the Ricardian theoretical crudities such as the labor theory of value, the wage fund, the confused capital concept, and many more. The apologies and qualifications which were introduced in the middle of each chapter after the preliminary statement of Ricardian doctrine were, at the close of the chapter, usually waived aside as non-essential, the result

57 These and others are named by Seligman, *op. cit.*, and most of them are treated by Ingram, *op. cit.* Other names before 1870 included by Webbs' *Trade Unionism*, page 618, among those who never accepted the wage fund, are Banfield, MacLeod, and, in America, Wayland, A. Walker, Bowen, Raymond, E. P. Smith.

58 Ingram, *op. cit.*, p. 146, quoting Sidgwick.

59 E. Cannan, *op. cit.*, pp. 290-391.

60 Ingram, *op. cit.*, p. 149.

being a futile eclecticism. In his attempt to introduce the social elements Mill shows hardly a trace of contact with the English socialist movement, but turns to the French Utopians for inspiration. Even moderate and liberal critics, such as Roscher, Ingram, Cannan, declare that he is in matter of philosophy and theory, "incoherent," and that he failed to realize his purpose. These and other similar conclusions reached by moderate "bourgeois" critics, though they have a different spirit and point of view, strongly support the scornful characterization by Marx, of the work of Mill as the "attempt to reconcile irreconcilables," "a shallow syncretism," "a declaration of bankruptcy by bourgeois economy."[61] The more moderate of these opinions of Mill's *Principles* is further justified by his later recantation of some essential parts of his theoretical scheme, and by the destructive effect of later criticism upon almost every feature of his supposedly systematic doctrine. It remains hardly more than a mass of theoretical junk, in the eyes of competent present-day scholarship. A modern economist hazards his reputation as a student of economic philosophy when he professes (as some one occasionally does even now) that "a modernized Mill" is his ideal of a present-day treatise on economics.

But for a time the few critics of Mill were almost unheard amid the chorus of adherents. Then in the sixties and the seventies began, within the circles of the recognized middle class economists of England and America, that process of change in matters of method, of sympathies and attitude, and of rational theories, that continued till the end of the nineteenth century. Our readers are familiar with the main features of the noteworthy change wrought in English political economy in that period, both by the internal theoretical revisions and by the play of external forces. J. E. Cairnes' attempt[62] to repair the defects of the theory of value as formulated by Mill but served to expose more fully its fundamental unsoundness. Other notable influences were the subjective-value revisionists, Jevons, Clark, and the Austrian economists; and the historians and social reformers, represented in England by Rogers, Cunningham, Ashley, Ingram, Toynbee, Hobson, and others. The moral, religious, and democratic protests largely transformed aristocratic and middle-class opinion, changing thus

[61] Author's preface to the second edition of *Capital* (1873).
[62] *Some Leading Principles*, 1874.

the very class environment and constituency of the professional economists. The change was marked by the passing of the old and the advent of a new generation of economists, with different training and professional ideals.[63]

We have now reviewed in broad outlines the beginnings and the characteristics of the price economics of the nineteenth century. We have not attempted an independent criticism of its defects as to internal logic and as a system of thought. That task has engaged many able contemporary critics and most students concede that the orthodox theoretical system has been thoroughly discredited. But we have shown how, from many sides, came protests against the very premises and postulates of price economics as well as against its conclusions. We must here halt our inquiry somewhat abruptly to continue it in a later paper. From some quarters today is heard the proposal not only that price should be the center of economic interest, but that the recent tendency in the otherwise divergent schools of thought are all toward the ideal of price economics. We shall, therefore, in the next paper examine this statement as to present tendencies and shall inquire whether price can now be made the ideal and center of economic study.

Frank A. Fetter.

Princeton University.

[63] It is often overlooked in discussion of earlier economic opinions that the "orthodox" economists were volunteers from many other callings. We may recall as examples that Smith was a professor of philosophy, Malthus a preacher, J B. Say an insurance clerk and later a cotton manufacturer, Ricardo a stock broker, Senior a lawyer, Torrens a soldier, James Mill a government employee, and J. S. Mill a writer on political philosophy and logic. Each of these men became a self-trained and self-styled economist without the aid of any special studies or systematic instruction, such as are demanded today of those preparing to be academic teachers of economics. Anybody then was an economist who called himself such. Today we properly speak of an economist as one of a guild of really professional scholars who have undergone serious training both in the special subject and in the spirit of scientific work.

BRITISH INCOME TAX REFORM

The British income tax is again under scrutiny. The Royal Commission on the Income Tax—the first commission since 1861 to make a complete inquiry into the subject—issued its report in March,[1] after a year's "intricate and difficult inquiry . . . into the efficient working of the greatest financial engine that has ever been devised in any country."[2] The publications of the commission, comprising, in addition to the final report, seven volumes of evidence with appendices containing detailed historical, statistical, and graphic information, bear testimony to the painstaking work of the commission on the problems of income tax reform.

The recommendations embodied in the report are moderate. Although numerous and detailed changes in the act are proposed, the essential nature of the tax remains untouched. The general structure of income and supertax rates, with the features of graduation and differentiation, is approved. The principal reforms advocated have to do with the raising of the exemption limit, increases in allowances, simplification of the graduation and differentiation schemes, and a number of administrative changes. Expressions of relief from an already heavily taxed public found their way into print as soon as the moderate nature of the recommendations was appreciated.[3] The attitude of the government is expressed in the statement of the Chancellor of the Exchequer that the recommendations would be considered by the government "with every desire to accept them."[4] The fact that the report was signed by all the members of the commission, after a full inquiry, would carry such weight that the strongest reasons would be necessary to warrant any material departure from their recommendations, according to the Chancellor.

The history and present status of the income tax. Proceeding with a thoroughness which later became proverbial, the commission opened its deliberations by hearing the evidence of one of the commissioners of inland revenue, Mr. R. V. N. Hopkins. The full and detailed summaries and statistical tables presented by Mr. Hopkins, incorporated in the Minutes of Evidence, afford the most

[1] *Report of the Royal Commission on the Income Tax* (Cmd. 615), 1920.

[2] Speech of the Chancellor of the Exchequer (Mr. Chamberlain) at the commission's dinner, Mar. 11, 1920.

[3] *Manchester Guardian* (weekly edition), Apr. 2, 1920, p. 282.

[4] *Daily Telegraph* (London), Mar. 13, 1920.

complete analysis of the history and operation of the act which has yet been presented to the public.[5]

Taxes graded according to income were first imposed in Great Britain in 1798, at the instance of William Pitt, in order to meet the financial burden of the war with France. The results in the first year were financially disappointing, but the act paved the way for a tax of 10 per cent upon incomes, imposed in the following year. In 1802, following the declaration of peace, the income tax law was repealed, but in 1803 the resumption of war caused its revival. In that year the rate was fixed at 5 per cent and the five schedules, A, B, C, D, and E, which make up the income tax of today, were used. The tax of this period remained in force until 1816, when it was abandoned.

In 1842 Sir Robert Peel restored the income tax in a form which has survived repeated modifications and remains the basis of the income tax of today. The rate of the tax was 7d. in the pound (3 per cent) and the exemption limit was £150. In 1853 Mr. Gladstone, in his famous budget speech, emphasized the usefulness of the income tax as a source of war revenue, but opposed its retention as a permanent measure in times of peace. Accordingly, in the same year in which Ireland was included in the income tax scheme, Mr. Gladstone devised a plan by which the tax would gradually decline during a seven-year period and expire in 1860. The outbreak of the Crimean War disturbed this program and gave the tax a new lease of life. In 1855 and 1856 the rate was 1s. 4d. in the £ (6½ per cent), the highest point reached from the re-introduction of the tax in 1842 to the outbreak of the war in 1914.

With the return of peace and the readjustment of the country's financial affairs, the rates fell to low levels, notably in 1874 and 1875, when the tax was 2d. in the £ (less than 1 per cent). The tax survived various proposals for repeal, and underwent no important changes in structure until 1907, when the differentiation of earned and unearned incomes was effected. In 1910 the introduction of graduation by means of a supertax on the larger incomes marked a second important structural change.

During the Great War the income tax has been amplified and readjusted repeatedly in order to produce an ever-increasing amount of revenue. At the time of the outbreak of the war the

[5] *First Instalment of the Minutes of Evidence,* pp. 1-14; appendices nos. 1, 2, 3.

general rate of the tax was 1s. 3d., a rate which was modified by abatements and allowances on the one hand and the addition of supertaxes on the other. The war budget of November, 1914, increased the income and supertaxes by one third. For 1915-1916 the taxes were doubled. Further increases were brought about by the lowering of the exemption limit from £160 to £130 and by repeatedly raising the rates. By the end of the war the standard rate had reached 6s. (30 per cent) and the supertax rate 4s. 6d. (22.5 per cent), making an effective rate on the largest incomes of 52.5 per cent. The consolidation of the income tax acts in 1918 brought together the various enactments into one compendious statute, which stands as the income tax law of today.

At the present time the income tax of the United Kingdom extends to the income of individuals and the undistributed profits of corporations. It applies to (a) all income arising in the United Kingdom, by whomsoever enjoyed, and (b) the income of all persons residing in the United Kingdom, without regard to the place of origin.

Income is divided into five kinds, classified in schedules as follows:

Schedule A. Profits from the ownership of lands and buildings.
Schedule B. Profits from the occupation of land.
Schedule C. Profits from investments in the public funds.
Schedule D. Profits from trades, professions and employments.
Schedule E. Profits from emoluments of public offices.

Corporations and non-residents are taxed at the standard rate of 6s. in the £ (30 per cent). For individuals resident in the United Kingdom the standard rate is 6s. in the £, but graduation and differentiation are also employed.

Graduation is effected in two ways: *downwards*, by reduction of the standard rate for incomes of £2,500 and less; and *upwards*, by the application of an (additional) graduated tax—the supertax—to incomes of more than £2,500. Individuals whose incomes do not exceed £130 are entirely exempt. Incomes exceeding £130 but not exceeding £2,500 are subject to tax by rates ranging from 2s. to 5s. 3d. in the case of earned incomes, and from 3s. to 6s. in the case of unearned incomes. Further relief in the form of abatements and allowances for wife, children, and certain relatives is given in the case of the smaller incomes. The supertax is chargeable if the income exceeds £2,500, and at £10,000 reaches a maximum of 4s. 6d. Differentiation is not employed

for incomes above £2,500. In so far as possible the tax is collected at the source.

In recent years the income tax has outstripped in importance all other forms of taxation, including even the high excess profits tax imposed in the war period, and has earned anew its old title of the "sheet-anchor" of national finance. In the financial year 1918-1919 the exchequer receipts from the income tax and super-tax were £291,000,000, or one third (32.8 per cent) of the total receipts.

No fiscal measure can attain so important a position without becoming the object of constant and detailed scrutiny. At such a height a slight defect in the tax is ground for a serious grievance. Every inequality and irregularity is a source of irritation. Furthermore, the possibility that this tax, commonly regarded as having a high degree of elasticity, has reached the limit of its expansion, cannot be neglected. If the income tax cannot be extended for the purpose of reducing the national debt, another method must be devised. Whatever the outcome, the facts of the case must be set forth clearly before any single program for the reduction of debt is entitled to support.

Serious considerations of this nature lay behind the appointment of the Royal Commission in April, 1919. The commission's terms of reference were as follows:

> To inquire into the Income Tax (including Super-tax) of the United Kingdom in all its aspects, including the scope, rates, and incidence of the tax; allowances and reliefs; administration, assessment, appeal and collection; and prevention of evasion; and to report what alterations of law and practice are necessary or desirable and what effect they would have on rates of tax if it were necessary to maintain the total yield.

In the course of its deliberations the commission held 50 sittings and examined 187 witnesses. The results of the hearings reached the public regularly and promptly in the form of the monthly "Instalments of Minutes of Evidence," the early numbers of which contained the mass of historical material noted above.

The final report of the Royal Commission. The report itself is a bulky volume containing, with the recommendations, a thoroughgoing summary of the income tax situation, as set forth in the evidence presented to the commission through the long period of its sitting. Although the report is signed by all the members, several have appended reservations concerning particular points.

The commission was convinced that its representative and diversified composition gave it a peculiar advantage in framing its recommendations.

In the introduction to the report the commission expressly disclaims the intention of making a fundamental change in the nature of the tax:

> As it was in 1842 so in its essential features it should remain. The tax has proved its worth as a part of the fiscal system in all times of stress, especially in the last five years, and it is by its results that it must be judged. We recognize, and we think the public will recognize, that an old-established system that has entered into the thoughts and the business of the people of this country for several generations should be judged, not by a theoretical standard of possible excellence, but by the results which it has achieved. . . . We have made many recommendations for the alteration of the tax and, as we hope, for its improvement; but we have made no attempt whatever to overturn the whole framework of the tax and set up in its place something else bearing the same name.

The body of the report is divided into six parts, corresponding to the terms of reference. Part I deals with the scope of the tax, part II with rates and incidence, part III with allowances and reliefs, part IV with administration, part V with assessment, appeal, and collection, and part VI with the prevention of evasion.

Exemptions and allowances. The most striking recommendation made, and that which from the time of its publication has received the greatest amount of public attention and approbation, concerns the fixing of the exemption limit. The commission recommends that *this limit should be raised from £130 to £150 for single persons and £250 for married persons without children.*[6]

The recent history of the discussion centering around the exemption limit is briefly as follows: The exemption limit of £160, which was fixed in 1894, remained in force without change until 1915, when it was reduced to £130. The change to the lower figure was made in the face of a storm of opposition, which has never entirely subsided. It was urged that a tax at this level was essentially a tax on wages, affecting principally wage-earners who had incomes of more than £2 10s. a week. Moreover, the cost of collection of this part of the income tax must obviously be disproportionately large. The cost of collecting the tax from wage-earners was stated by the Board of Inland Revenue to be 7 per

[6] *Report*, part III, paragraph 246 (p. 56).

cent of the amount collected;[7] while Lloyd George is quoted as saying that the collection of the tax on the very low incomes of other than wage-earning people, "small shopkeepers and men who do odd jobs of all kinds," would cost the Exchequer as much as 70 per cent of the resulting collections.[8] The gain in receipts through the lowering of the exemption limit was placed at £1,000,000, an almost insignificant amount when the total yield of the tax is considered.[9]

The South Wales miners were especially active in opposing the retention of the exemption limit of £130. In June, 1919, Mr. Charles Edwards, M. P., appeared before the commission and in behalf of the South Wales Miners' Federation presented a protest against maintaining the limit at £130.[10] The protest was based principally on the arguments (1) that the reduction of basis had been made at a time when the cost of living was going up; (2) that the tax under these conditions pressed more heavily upon the poor than upon any other part of the community; and (3) that the cost of collecting this part of the tax was at least more than half the amount collected.[11] The exemption limit recommended by the miners' representatives was £250, a limit which had just previously been proposed by the Labor party and discussed in the House of Commons.[12] It was generally believed at this time that a refusal to work up to the point where wages would come inside the income tax limit was a common practice with the miners, a belief which was supported by the testimony of their representative in connection with the evidence noted above. In the autumn of 1919 the miners' opposition to the low exemption limit became so strong that a project for strike to resist the payment of income taxes on wages not exceeding £250 a year won a favorable majority in a strike ballot among the South Wales miners' organizations.[13] The strike was postponed, however, and no concerted action resulted.

Few witnesses before the commission failed to testify in some

7 *Second Instalment of Minutes of Evidence,* appendix 8, p. 73.

8 *Parliamentary Debates* (Commons), vol. 115 (1919), col. 1169.

9 *Ibid,* vol. 115 (1919), col. 1176.

10 *Second Instalment of Minutes of Evidence,* pp. 114-125.

11 The commission later noted the fact that the figures for cost of collection presented by the Board of Inland Revenue failed to support this contention as to cost.

12 *Parliamentary Debates* (Commons), vol. 115 (1919), col. 1167.

13 The *Times* (London), Dec. 2, 1919.

connection on the question of the exemption limit. Various higher figures were suggested, and a number of variations in the general scheme were proposed; but underlying the diverse testimony a general and strong sentiment in favor of raising the limit became apparent to the commission. The arguments presented are summarized in the report as follows:[14]

> (a) The cost of living has greatly increased since the present limit was fixed.
>
> (b) There should be no taxation on an income so small that it is only sufficient to satisfy ordinary human needs.
>
> (c) Existing indirect taxation lays upon a person with a small income the full share of the State burden which he ought to be called upon to bear.

On the other hand, it was argued before the commission that the limit should be *lowered*, in order to make possible the lightening of the burden of indirect taxation, and also in order that the majority of the voters might not be absolved from direct payment towards the country's expenses.

The recommendation that the exemption limit should be raised to £150 for single persons and to £250 for married persons without children, is accompanied by the recommendation that *these limits should be maintained without fluctuation from year to year*, until there is a substantial change in the cost of living. In recommending the increases the commission states that it has given due consideration "to ability to pay and to the cost involved in collecting small sums of Income Tax . . . [and to the fact that] no tax can be successfully administered that is contrary to the general sense of justice in the community."[15]

Accompanying the recommendation for raising the exemption limit are suggestions that *the joint assessment of married persons should continue;* that *the wife allowance formerly permitted should disappear and be merged in the exemption allowed to a married couple;* that *the allowance for children should remain at £40 for the first child but should be increased from £25 to £30 for each subsequent child;* and that *the allowance for dependent relatives*, which formerly applied only to incomes of not more than £800, *should apply throughout the scale of income.*[16]

[14] *Report*, part III, paragraphs 240, 241 (p. 55).

[15] *Idem*, 246, 247 (p. 56).

[16] *Idem*, 260, 272, 282, 287 (pp. 54-63).

The general effect of these recommendations, as set forth graphically in the charts appended to the report, is to make the burden of the income tax *heavier* for single persons, especially for those with moderate incomes; *lighter* for married persons without children whose incomes are small; and *lighter* for married persons with children whose incomes are small or moderate.

Included in the same division of the report[17] are the recommendations that *allowance should be made for wasting assets in cases where the life of the asset falls short of 35 years;* that *no allowances should be granted to any other asset;* that *an increase should be made in the graduated allowances for houses of small annual value;* and that *allowances for life insurance premiums should be continued, but with a slight modification in rates.*

These changes in exemptions and allowances, if incorporated into law and income tax practice, are hardly calculated to cause noticeable changes in the amount yielded by the income tax. The advantage will lie in the satisfaction of the desire of the taxpaying community for a more equitable and convenient application of the tax.

The differentiation plan. The commission recommends that *the present differentiation against unearned incomes should be diminished.*[18] The device suggested, through which the differentiation may be lessened and the whole scheme simplified at one stroke, is the diminishing of earned income by one-tenth for the purposes of assessment. The income so diminished would be charged at the rate of tax applicable to unearned income. The commission comments incidentally on the public objection to the expression "unearned income," and advocates the substitution of the term "investment income"—a terminology the use of which is illustrated in the titles of the appended graphs.

The distinction between earned and unearned income for purposes of taxation is a recent development in British income tax practice. The Board of Inland Revenue makes the comment that "it is rather remarkable that an agitation that began as soon as Pitt introduced his Bill in 1798 and was carried on by a devoted succession of enthusiasts throughout the whole of the following century did not attain its legislative end until 1907."[19] The Select Committee of 1906, appointed to consider (in addition to

[17] *Report,* part III, paragraphs 187, 191, 232, 300 (pp. 41-72).

[18] *Report,* part II, paragraphs 109, 110 (p. 25).

[19] *First Instalment of Minutes of Evidence,* appendix 7 (b), p. 54.

graduation) the practicability of "differentiating . . . between Permanent and Precarious incomes," reported that differentiation on incomes not exceeding £3,000 a year was practicable, and could most conveniently be carried into effect by charging on such incomes a rate of tax lower than the normal or foundation rate. The difficulty of making a logical division between "earned" and "unearned" incomes was recognized, and the distinction between private traders' incomes and the profits of public companies was suggested as a possible working basis.

The committee's recommendation was approved and the general structure of the plan was incorporated in the Finance Act of 1907,[20] according to the terms of which the rate on earned income was placed at 9d. in the £ instead of 1s., provided that the taxpayer's income did not exceed £2,000. Subsequent finance acts have increased the degree of differentiation and have elaborated the scale of rates until there are at the present time five rates applicable to earned incomes up to £2,500, above which point the full normal rate is in effect.

In the course of the sessions of the Royal Commission in 1919, evidence was given that the scale of differential reliefs operated harshly against the smaller unearned incomes, especially as these are often derived from the investment of savings out of earned income. The commission reports that it is not practicable to attempt to decide how far income from investments is derived from the saved portion of earned income, but nevertheless presents a recommendation materially diminishing the differentiation against small incomes. The fraction one tenth, suggested for diminishing earned incomes for the purposes of taxation, would not only remove the present burden on unearned incomes at the foot of the scale—at the lowest point of which the differentiation is now in proportion to the fraction one fourth—but would also simplify the tax. Furthermore, the commission regards the point of £2,500, at which differentiation ceases, as wholly arbitrary, and recommends the substitution of £2,000, earned income. The maximum deduction for differential relief would consequently be £200.

Graduation. Immediately following the section on differentiation is a full discussion of graduation and recommendations for the simplification of the scheme.[21]

The movement for the graduation of the British income tax

[20] 7 Edward 7, c. 13, s. 19.

[21] *Report,* part II, sec. II (pp. 28-35).

has in many ways paralleled the movement for differentiation. Pitt's "Triple Assessment" and the following income tax of 1799 contained the feature of graduation for the smaller incomes, but not for the larger.[22] It was held at that time that graduation at the lower end of the scale was a practical necessity, but the suggestion of graduation at the upper end of the scale was regarded as an absurdity. From 1842 to 1853 the tax was charged at a uniform rate, but in 1853 a step was again taken in the direction of graduation by the introduction of an abatement for incomes of less than £150 at the time when Mr. Gladstone reduced the exemption limit to £100. This change was regarded by Mr. Gladstone, who remained a steadfast opponent of both differentiation and graduation, merely as a readjustment of the exemption limit. He refused to consider proposals for a graduated tax, on the ground that past experience showed that Pitt's system of graduation was bad, and that such a system "tended to communism." Another famous opponent of graduation, John Stuart Mill, described such a mode of taxation as "graduated robbery."

In succeeding years the fierceness of the opposition to the bare idea of graduation slowly died away. In 1894 Sir William Harcourt extended the abatement system for small incomes and announced his adherence to the principle of graduation for large incomes. In 1906 the Select Committee appointed to deal with the questions of graduation and differentiation noted in its report the fact that graduation up to £700 was already in force through the system of abatements, and stated that the system could be extended. In addition, the committee outlined the method of effecting graduation by means of a supertax, and gave it as its opinion that such a plan, although offering disadvantages and difficulties, was practicable.

These recommendations of the committee were not incorporated into law until the passage of the Lloyd George budget of 1909,[23] when a supertax was imposed on incomes of over £5,000. The Finance Act of 1914, passed before the outbreak of the war, further extended graduation. In 1918 the limit above which the supertax becomes payable was brought down to £2,500, and the maximum rate chargeable reached 4s. 6d., at which point it has remained.

The difficulties inherent in the methods of graduation now in

22 *First Instalment of Minutes of Evidence*, appendix 7 (a), p. 51.

23 10 Edw. 7, c. 8, s. 66.

use are the presence of a series of diminishing abatements; the cessation of family allowances when the income is over £1,000; and the sudden increases in the tax payable by incomes slightly in excess of the points where the rates of tax are increased or where an abatement ceases. The commission set before itself simply the task of remedying these anomalies, for graduation itself is now "almost universally admitted to be as sound in principle as it is imperatively necessary in practice."[24]

A number of witnesses, among the most widely known of whom is Professor Edgeworth, suggested in their evidence before the commission the simplification of the scheme of graduation through the use of a mathematical function.[25] Such a method would have the advantage of smoothing the inequalities in the burden of the tax at the point where rates are changed, and would at the same time change the character of the taxation of the highest incomes from simply proportional to progressive taxation. On the other hand, as was stated by Dr. J. C. Stamp, perhaps the best known authority on British incomes, in his evidence before the commission, the first considerations are simplicity and convenience, rather than mathematical elegance.[26]

> The one essential feature that emerges from the whole subject is that when all the mathematical elegancies have been satisfied, it is still impossible to say which of the various curves truly represents that principle of equality of sacrifice they purport to embody. . . . There is absolutely no common agreement among economists that a certain type of curve or formula is *economically* the most correct. If there were, then great sacrifices might be made to attain it in practice.
>
> This being so, we are forced to consider simplicity and convenience first of all, associated with *any* degree of smoothness and adaptability. The wanton and bigoted way in which persons obsessed with certain mathematical ideas urge the sacrifice of all practical points to their lust for algebra, would be a serious public danger if their influence became great. If they are told that a certain smooth curve would entail abolition of taxation at the source, they reply quite unmoved that "taxation at the source must go." . . . I must say, with great conviction, that we should as a people make a very bad bargain if we sacrificed the principle of taxation at the source for the doubtful boon and inconclusive virtues of a curve even of most elegant functions and unimpeachable suavity.

The commission, of which Dr. Stamp became a member after

24 *Report*, part II, paragraph 128 (p. 29).

25 *Fourth Instalment of Minutes of Evidence*, p. 583.

26 *Third Instalment of Minutes of Evidence*, pp. 463-464.

giving his evidence, quotes with approval his and other criticisms of the employment of formulae, and recommends instead a scheme for graduation which is briefly as follows:

The taxable income (reached by deducting the appropriate allowances) *should be charged at half the standard rate of tax where it does not exceed £225. If it exceeds £225, the first £225 should be charged at half the standard rate of tax, and the excess over £225 at the full rate of the tax.*[27] *The supertax should still be separately charged, and the point above which it is imposed should be £2000.*[28] The scale suggested by the commission reaches 5s. 6d. as its highest point.

Taxation at the source. The commission advocates the continuance of taxation by deduction at the source, which it regards as "of paramount importance, lying as it does at the very root of our Income Tax system."[29] In this decision the commission follows the example of the committees of 1905 and 1906 and fulfils the expectations of the public.

Taxation at the source has been employed in the collection of the British income tax since 1803, the date of the introduction of the five schedules,[30] and is commonly regarded as one of the chief reasons for the success of the tax. When the income tax was reimposed in 1842, taxation at the source was again employed, and has been in use from that time to the present, with only slight modifications. The assessment of the supertax, beginning in 1910, marked a partial departure from the ordinary practice. The opponents of graduation had found one of their greatest supports in the general allegiance to this method of collection, but they were finally outgeneraled by the shaping of the graduation plans around the central one of taxation at the source. A second change, which marks a more serious departure from the method, was brought about by the direct assessment of certain of the war securities.

In recent years a movement for a simple and direct individual return of income from all sources has been steadily growing. It is stated that abatements, differentiations, allowances, exemptions, and the provisions for the supertax have so weakened the plan of taxation at the source that 99 per cent of all the incomes come

27 *Report,* part II, paragraph 139 (p. 31).

28 *Ibid.,* paragraph 152 (p. 35).

29 *Report,* part II, paragraph 154 (p. 36).

30 *First Instalment of Minutes of Evidence,* appendix 7 (g), p. 61.

under a separate survey, involving a separate assessment in each case.[81] Furthermore, many taxpayers who are not liable at the full rate are for the time being deprived of the use of the money which is eventually to be refunded to them—a loss which is a serious hardship to the taxpayers with the smaller incomes.

The commission recognizes the difficulties involved in adhering to the plan of taxation at the source, but is not satisfied that any other plan would yield as satisfactory results as the present system. In fact, the abandonment of the method at this juncture would, in the opinion of the commission, involve an enormous loss of revenue, and throw an unjust burden upon the conscientious and scrupulous taxpayer. The incidental inconveniences to particular classes of taxpayers should be minimized by special devices. In another section of the report,[82] however, the commission recommends that *so long as opinion amongst the wage-earners is strongly against the deduction of tax from wages by employers, the scheme should not be adopted*, and notes in this connection the fact that "there is no reason to believe that there is any considerable evasion of tax by this class of taxpayer."

Double taxation. The questions of double taxation within the empire and of double taxation by the United Kingdom and the governments of foreign states were among the first taken under consideration by the commission. As the law now stands, persons resident in the United Kingdom and deriving income from the dominions, India, or from the colonies, as well as from foreign countries, are taxed on such income by the United Kingdom without regard to taxes levied by the governments under which the incomes arise, except for a series of concessions made during the latter part of the war.

Double taxation within the empire has existed for many years, but the situation was rendered particularly acute through the operation of the Finance Act of 1914, which extended the double taxation (formerly applicable only to income brought into the United Kingdom) to all income derived from abroad *whether or not it was brought into the United Kingdom*,[83] and by the increases in taxation throughout the empire during the war period. The imperial aspect of the question was recognized in 1916 and concessions which eventually reached a maximum of 2s. 6d. in the £

81 J. A. Hobson, *Taxation in the New State*, p. 107.

82 *Report*, part V, paragraph 498 (p. 109).

83 4 & 5 Geo. 5, c. 10, s. 5.

were made in the favor of double taxpayers within the empire. Further relief was postponed until after a post-war investigation.

It was represented to the Royal Commission that although the war represented a common effort by the empire without distinction, certain individuals within the empire who come to the mother country from the colonies for purposes of health, trade, education of children, and similar reasons, are in a sense singled out to pay twice over to the cost of the war. The commission recognized the inequities involved, and recommends the adoption of machinery for doing away with double taxation within the empire.[34] *In substitution for the existing partial reliefs there should be deducted from the appropriate rate of the United Kingdom income tax the whole of the rate of the dominion income tax on the same income,* subject to the limitation that in no case should the maximum rate of relief exceed one half of the rate of the United Kingdom income tax. If further relief is necessary in order to free the taxpayer from the entire rate of the lower of the two taxes, it should be given by the dominion concerned.

In the case of double taxation by the United Kingdom and foreign states the situation is more complicated, and its details gave rise to spirited interchanges of opinion in the hearings before the commission. It was represented to the commission that residents of Great Britain who derive a considerable amount of income from the United States are compelled to pay so large an amount of tax that only a small fraction of the original income remains; while in the United States the difficulties of the position of residents who derive income from foreign sources has been recognized in the setting off of tax against tax which is provided for in the revenue act of 1918; with the result of encouraging the citizens of the United States to undertake worldwide business, while British subjects resident in the United Kingdom are in effect penalized for so doing. A number of examples, similar in character to the following, were presented to the commission.[35]

A British subject resident in London constructs and owns an underground railway in New York. On the profits he would pay, first, American normal tax and surtax, and, second, on the residue, British income tax and super-tax. An American citizen resident in New York constructs and owns an underground railway in London. On the profits he would pay British income tax, but would only be charged

34 *Report,* part I, paragraph 70 (p. 16).

35 *Third Instalment of Minutes of Evidence,* p. 363.

American tax if the amount of this exceeded the amount payable in Great Britain.

Sir Archibald Williamson, M.P., who presented this illustration, stated that considerations of this nature induced the removal of business enterprises from Great Britain to foreign countries, so that they might escape double taxation. Even more important, in his opinion, were the losses to Great Britain through the non-establishment of companies with large capital stock.

In spite of the presentation of a mass of evidence of this kind, the commission reports that "*in the present circumstances we cannot recommend any change in the existing situation as to double taxation of the same income by the United Kingdom government and by the government of a foreign state.*"[36] In this conclusion the commission is supported by the Board of Inland Revenue.[37]

The decision of the commission is based principally upon the argument that the remission of taxes paid abroad would mark a serious departure from the principle of "ability to pay"; for the anomaly would arise of two British residents with equal incomes paying unequal taxes. The same privileges of residence would be enjoyed, and the only justification of differential treatment would be that one British resident had contributed to the revenue of a foreign state while the other had not, a consideration which the commission believes would not carry conviction to the ordinary taxpayer who would be called upon to make up the tax lost.

The taxation of coöperative societies. With the possible exception of the question of the exemption limit, no subject under consideration by the commission held the popular attention throughout the period of the sittings so steadily as the taxation of coöperative societies. The mass of evidence offered and the correspondence received were evidently a matter of surprise to the commission, and are described by them as more voluminous than the importance of the subject had led the members to expect.[38]

> The great and rapid growth of the coöperative movement in recent years, the number of individual trading competitors who are adversely affected by its progress, and the large section of the community which is interested in the distribution of the societies' surpluses or profits, have caused public attention to be drawn to this question in a marked degree, and we have therefore considered the matter at a somewhat greater length than is warranted by its importance from an Income Tax point of view.

[36] *Report*, part I, paragraph 83 (p. 19).

[37] *Seventh Instalment of Minutes of Evidence*, appendix 60, p. 194.

[38] *Report*, part V, paragraph 537 (p. 118).

Coöperative societies registered under the Industrial and Provident Societies act of 1893 are exempt from all taxation under schedules C and D on trading profits, bank interest, and interest on investments. This exemption, which gives the coöperative societies an apparently favored position, was made a subject of inquiry by the Departmental Committee of 1905, which reported against a change in the law. In the interval between 1905 and the appointment of the present commission the coöperative movement has grown rapidly, and the resentment of private traders against the advantages given to the societies has gathered strength. The controversy which was laid before the present commission centered about the essential nature of the surplus of sales to members. The commission adopted the view that the surplus is simply a bookkeeping balance made for the purpose of determining what portion of the nominal purchase price shall be returned to the shareholder. When that discount or rebate shall have been returned to the shareholder, the surplus remaining in the hands of the society is a true trading profit. The commission therefore recommends that *any part of the net proceeds which is not actually returned to members is a profit which should be charged to the income tax.*[39] It is further recommended that a society should be treated exactly as a limited trading company under similar circumstances, and that wholesale and productive societies should be treated on exactly the same basis as distributive societies. The special treatment of agricultural coöperative societies under the income tax law should be discontinued.

Administration. A number of minor administrative changes are suggested in part IV of the report. The commission decided against making any direct investigation of the work of the Board of Inland Revenue, on the ground that they had received no evidence of the necessity of such an inquiry; on the contrary, they endorse the testimony of witnesses as to the efficiency of the work done by the board. The administrative changes recommended have to do with the centralization of the machinery of assessment and collection in the hands of the board. It is recommended that the office of assessor should be abolished; that the office of collector should be made a more important one, for which the appointments should be made through the Board of Inland Revenue; and that the areas of administration should be rearranged and be made independent of those of the old land tax.

[39] *Report,* part V, paragraph 550 (p. 120).

Other recommendations. The commission recommends that *farmers,* formerly taxed under Schedule B and given exceptional *treatment largely on account of a proverbial failure to keep accounts, should gradually be transferred to Schedule D and treated as the recipients of trading and other incomes are now treated.*[40] The average system as regards the profits of companies should be abolished, and *the preceding year's profits should be taken as the basis of assessment under Schedule D.*[41] *Casual profits*—that is, profits made on transactions recognizable as business transactions which lie outside the taxpayer's ordinary business but are entered into with a view to profitmaking—*should be brought within the scope of the income tax.*[42]

The prevention of evasion. The commission received important evidence on the evasion of the income tax, a part of which was excluded from the Minutes of Evidence on the ground that it might provide a guide to improper practices if placed in the hands of susceptible persons. The commission became convinced that at the present time there is a serious leakage through evasion. In each of the years 1917 and 1918 nearly £1,250,000 was paid into the treasury on account of the inquiries of revenue officials regarding income which had escaped assessment. The official witness of the Board of Inland Revenue estimated that from £5,000,000 to £10,000,000 additional might be brought into the treasury through the improvement of methods of administration in this respect. The commission accordingly recommends *heavier penalties for evasion and a greater stringency of administration.*[43]

Reservations. Although the report is signed by all the members of the commission, a number of "reservations" are appended. The majority of these have only one or two signatures; but a reservation stating that no part of the profits of coöperative societies should be subject to the income tax is signed by seven members; a reservation urging the abolition of differentiation is signed by five members (no one of whom was among the signers of the reservation previously noted), and a reservation stating that a fuller investigation of the income tax should have been undertaken, with a view to distributing the tax burden more widely,

[40] *Report,* part V, paragraphs 451, 452 (p. 100).
[41] *Idem,* part V, paragraph 479 (p. 105).
[42] *Idem,* part I, paragraph 91 (p. 20).
[43] *Idem,* part VI, paragraphs 632, 634, 635 (pp. 136-138).

is signed by four members, all of whom signed the reservation on differentiation.

Summary. The impartial tone of the report, the moderate nature of the recommendations, and the evidences of thoroughness which the publications of the commission present throughout, will undoubtedly classify the Royal Commission of 1919 as an able deliberative body. Whether the particular decisions of the commission will stand the test of time is a more doubtful question. Several of the recommendations bear more clearly the marks of the commission's desire to leave the general structure of the income tax undisturbed than evidence of the logical following-up of the material in hand. The refusal to consider the adoption of a mathematical formula to smooth tax rates and continue progression is based on the difficulty of ascertaining the type of curve which would conform to the instinctive judgment of the people, a difficulty which is equally serious in connection with the present system; upon the argument that it would not fit in with taxation at the source, a consideration which has several times been put aside as of lesser importance than the main proposal (notably in connection with the introduction of direct graduation); and upon the loss of duty and trouble and expense of collection, an argument unsupported by adequate evidence other than opinion. Similarly, the decision for the retention of taxation at the source rests upon the contention that its abandonment would involve a loss of revenue; while in connection with the discussion of the possible introduction of taxation at the source for wage-earners' incomes it is stated that the assessments are as adequate as on any other description of income and the payment of the tax by this class of taxpayers compares favorably with that of other classes.

Still another instance of the support of present procedure by the use of arguments not followed to a conclusion is contained in the statement that the abolition of double taxation by the United Kingdom and foreign governments would involve a serious departure from the principle of "ability to pay." The argument of the commission rests upon the implied statement that a resident of the United Kingdom who has paid a heavy tax abroad and a resident of the United Kingdom with equal income who has paid no taxes whatsoever abroad have an equal "ability to pay," and upon the express statement that the anomaly would appear of "two British residents with equal incomes paying very unequal

taxes" if the procedure were changed—a statement which is incorrect unless the words "to the United Kingdom" are added.

More serious still is the failure of the commission to express recognition of the seriousness of the financial situation of the country. If it was found undesirable to *raise* the rates of the tax in such manner that an appreciably larger revenue would be gained, the conclusion and the evidence upon which it was based should have been presented. If it was found undesirable to *lower* the tax the conclusion and the evidence supporting it should have been presented. The four members of the commission who signed the reservation on the scope of the inquiry had in mind considerations of this nature in making the statement that "an inquiry into the scope and incidence of a tax is incomplete unless the effect of that tax is considered in connection with other burdens; and unless taxation is regarded not merely from the point of view of the individual, but from that of its general result on production, industry, and saving." Already the results of these sins of omission are being felt. The budget proposals of April 19, 1920, contain a restoration to a high level of the excess profits tax, which had been reduced in 1919. The obvious conclusion is this: failing an extension of the income tax or the suggestion of an alternative measure, a high excess profits tax is to become a permanent part of the British taxation system.

Alzada Comstock.

Mount Holyoke College.

THE TRANSPORTATION ACT OF 1920

The railroad legislation enacted by the last Congress, officially designated as "Transportation Act, 1920," is the first constructive railroad legislation enacted by Congress since the land grant acts passed in 1863 and 1866.

The Interstate Commerce act of 1887 was enacted for the purpose of correcting certain evil practices which had grown up under unregulated private operation. The railroad managers prior to the enactment of that law not only failed to observe the obligations imposed upon those engaged in a public service undertaking, but were even ignorant that there was any substantial difference in the laws relating to a public calling and to a private business—hence corrective legislation was necessary.

It was not until about 1910 that public attention began to be called to the fact that the railroads were failing in their primary function, namely, in rendering adequate service. Beginning about that time there was increasing complaint against the quality of service rendered.

Coincident with this change in situation was the enactment of the amendment of 1910 to the Interstate Commerce act, which gave to the Interstate Commerce Commission the power to suspend schedules of rates filed by the carriers. In other words, at the very time when the railroads were realizing the necessity of extensions and improvements, and at a time too when prices and costs of operation were advancing, a restriction was placed upon the ability of the railroads to increase their revenue without securing the approval of public authorities.

The Interstate Commerce Commission has been criticized for failing during the last decade to recognize the increasing difficulty which the railroads were having in raising money for their requirements. The adverse decisions of the commission in the Advance in Rates case in 1910, the Five Per Cent case in 1914, and the Fifteen Per Cent case in 1917, are cited as evidences of the lack of vision on the part of the commission in anticipating the increasing demands for transportation service.

To one who has studied those rate cases it is apparent that the railroads raised issues which either were not relevant or, if relevant, were not sustained by the evidence which they introduced. Under the law the commission was obliged to decide the issue upon the evidence introduced at a public hearing. Upon the evi-

dence, and upon the issues raised by the railroads, it is difficult to see how the commission could have decided otherwise, although the outstanding fact remains that about 1910-1914 there began a change in the price level, resulting in higher operating cost, which would have justified and perhaps which demanded increases in rates.

Period between 1916 and 1920.

Beginning about 1915 or 1916, it became apparent to Congress as it had been for some time to the railroads and to the public that the railroad transportation system was not meeting the transportation requirements of the country. There began also to be a feeling in Congress that this situation was not due so much to the shortcomings of the railroads as to the shortcomings of legislation. Upon the recommendation of the President a Joint Committee of Congress was appointed to investigate the railroad problem. This committee, composed of five members from each committee of the House and Senate on Interstate Commerce, commonly known as the Newlands Committee, began its hearings in November, 1916, and were continued into the spring of 1917. when the war postponed further hearings. During that time, however, the railroad officials made a very powerful plea for constructive legislation. The signing of the armistice, with the certainty of a return of the railroads to private operation, compelled an intensive study of the question by Congress. During the year 1919 the Interstate Commerce committees of both houses separately held extended hearings and went into the whole question with painstaking care.

Congress was confronted with the immediate problem of enacting legislation vitally necessary to meet the condition arising upon the return of the railroads to private management. It also recognized that the unsolved problem of a permanent regulatory policy must be solved if private operation were to be a success.

The legislation finally enacted is an attempt to meet both of these problems. The House passed the so-called Esch bill, which dealt largely with perfecting the existing machinery of regulation; the Senate passed the Cummins bill, which was a radical departure from existing regulatory legislation. The bill as it came out of conference and was enacted into law was largely a combination of these two bills, with some important modifications.

The act provided that federal control of the railroads should terminate on March 1, 1920, and on that date most of the provisions of the new act went into effect.

Provisions relating to termination of federal control.

The first part of the act deals with the termination of federal control and its provisions are transitory in their nature, although of vast importance to the railroads. Some of these provisions have now ceased to operate, and others are of little importance to the public.

Had the railroads been turned back to private operation on March 1, 1920, without sustaining legislation there would have been general disorganization and not a little bankruptcy among the carriers. Congress very wisely provided, therefore, that for a period of six months after March 1, 1920, the United States would pay to the carriers, who elected to take it, the same rate of compensation which had been paid to them by the government during its operation. A carrier was not obliged to accept this guaranty. If it did accept it, the carrier was obliged to pay over to the government whatever it earned in excess of the guaranty. Most of the carriers accepted the guaranty. This provision of the act is now a matter of history, but there is no doubt that it prevented what might have been a serious financial crisis.

The act also provides methods for the settlement of matters arising out of federal operation. Proper machinery is provided for the settlement of disputes. As the government contracted to turn the railroads back to their owners in substantially the same condition in which they were when it took them it is readily seen that there are opportunities for protracted litigation, and that it will be many years before all of these disputes are settled. The Director General of Railroads, as appointed by the President under the new act, is, therefore, little more than an adjuster of claims. During government operation large sums of money were expended by the government in the acquisition of equipment and in the extension of facilities generally. Under the terms of the contract between the government and the railroads this raised an obligation on the part of the railroads to repay the government for such expenditures. The act provides, in a general way, that the debts owed to the government, with certain set-offs for sums owed by the government to the railroads, may be funded for a period of ten years at 6 per cent interest.

It was recognized by Congress that upon the termination of federal control many of the carriers would not be able to raise money for necessary extensions upon their own credit, and therefore $300,000,000 was appropriated to be used as loans to the railroads "for the purpose of enabling carriers . . . properly to serve the public during the transition period immediately following the termination of federal control."

The fundamental features of the act.

Those features of the act to which reference has been made were vitally important to the carriers in their relations with the government. Some of them have served their purpose and others are still in operation, but they deal with the adjustment of things which have passed. The interest of the public is now in those operations of the act which deal with the permanent problem of regulation. Many amendments were made to the Interstate Commerce act which are of importance, but of minor significance as compared to three or four fundamental features of the act which will be referred to.

The labor problem.

The two outstanding problems which confronted Congress in considering legislation were, first, how to deal with the labor problem so as to prevent interruption in transportation, and, secondly, the passage of legislation which would enable the credit of the railroads to be reëstablished. The labor question is always charged with political dynamite. The Senate committee and the Senate itself handled the problem with striking courage. The bill which passed the Senate provided for compulsory arbitration of labor disputes, and made the finding of the arbitration tribunal of binding effect. It further made the combination of employees substantially to interrupt transportation an offense. The House committee approached the problem with a full appreciation of its momentousness, but in the firm belief that the solution was not to be found in any law preventing strikes. It reported a provision carefully worked out, but somewhat complicated, for the compulsory submission of disputes to boards of arbitration, but did not go so far as to declare strikes unlawful. The House, however, rejected the provision and enacted an extremely weak voluntary arbitration provision, which it is commonly reported was prepared by the railroad brotherhoods.

The provision as it came out of conference and as it was finally enacted, contained no prohibition against strike, but may prove to be as effective as such a prohibition. The strength of the labor provision lies in its eminent fairness, and whether it will be successful in preventing the interruption of transportation may be determined before this article appears in print and therefore it is not proposed to indulge in any prophesies.

It is made the duty of the carriers and the employees "to exert every reasonable effort and adopt every available means to avoid any interruption to the operation of any carrier growing out of any dispute between the carrier and the employees." This is merely a warning both to the railroad officials and to the employees that they must try to get together. It represents no departure from previous policy, for there have been few strikes without previous efforts to arrive at an agreement.

It is then provided that railroad boards of labor adjustment *may* be established by agreement between the railroads and the employees. If such an adjustment board on any particular railroad or group of railroads is established by agreement, then, either upon the request of the carrier, or of the employees, or upon the employees' own motion, or upon the request of the Railroad Labor Board (hereinafter to be referred to), such board shall hold a hearing, take testimony, and decide any dispute involving "only grievances, rules, or working conditions."

It is to be observed that if a board of adjustment is agreed upon, then any party in interest may set in motion the machinery necessary for a decision by that board. The board has power to summon witnesses and to compel their attendance and the production of documents. This board has no power to determine wages. It has no power to enforce its decision. The effect of the decision is merely that of any voluntary board of arbitration. Compliance with the decision rests upon the force of public opinion. The subjects which it deals with are of minor general importance, and it is reasonable to suppose that its decisions will be fair and will be acquiesced in by the employees.

The question of wages, however, is left to a board called the Railroad Labor Board, of greater dignity and permanency, the members of which are appointed by the President. Three of the members are appointed from nominees named by the employees, three from nominees of the railroads (the nominations being made under regulations made by the Interstate Commerce Commission),

and three appointed directly by the President, who are representatives of the public. The members of the board each receive $10,000 a year salary, and the board has its headquarters at Chicago, with power to sit elsewhere. It has power to compel the attendance of witnesses and the production of papers.

This board has wide authority. It is its duty to hear and decide:

1. Disputes involving grievances, rules, or working conditions when an adjustment board has been unable to reach a decision.

2. Disputes involving grievances, rules, or working conditions where no adjustment board has been organized and application is made by the carriers or by the employees for a hearing, or where the Labor Board itself is of the opinion that the dispute is likely substantially to interrupt commerce.

3. Disputes involving wages, hearing to be held upon application of the carriers, or the employees, or upon the board's own motion.

A decision requires the concurrence of at least five members of whom one at least shall be a representative of the public. Inasmuch as the act provides, in effect, that any increase in wages is directly borne by the public, it is necessary that representatives of the public should have some voice in determining the question.

Again, there is no penal provision for compelling compliance with the decision of the Labor Board, but it is provided that "all decisions of the Labor Board shall be entered upon the records of the Board and copies thereof, together with such statement of facts bearing thereon as the Board may deem proper, shall be immediately communicated to the parties to the dispute, each Adjustment Board, and the Commission, and shall be given further publicity in such manner as the Labor Board may determine."

The strength of this labor legislation rests upon the existence of permanent machinery for settling disputes. If the employees should strike without resorting to the machinery provided by Congress, the striking employees would at once lose all popular support, and this in itself is a serious deterrent to hasty action—at least by the more conservative railroad brotherhoods. The law was not successful in preventing the so-called outlaw switchmen's strike, but it was an exceedingly hopeful sign that this strike was condemned by the brotherhoods, and that the Railroad Labor Board refused to hear the grievances of the switchmen upon any conditions whatsoever.

The law provides that the Railroad Labor Board shall establish just and reasonable wages.

In determining the justness and reasonableness of such wages and salaries or working conditions the board shall, so far as applicable, take into consideration among other relevant circumstances:

1. The scales of wages paid for similar kinds of work in other industries;
2. The relation between wages and the cost of living;
3. The hazards of the employment;
4. The training and skill required;
5. The degree of responsibility;
6. The character and regularity of the employment; and,
7. Inequalities of increases in wages or of treatment, the result of previous wage orders or adjustments.

No fairer standard of the reasonableness of wages could possibly be determined.

If the law proves inadequate to prevent the interruption of transportation by strikes there can be little doubt that the Congress of the United States will be prepared to enact more drastic legislation, for the temper of the people and their overwhelming necessities are such that interference in transportation can not and will not be tolerated.

The financial provisions.

Adequate service depends largely upon adequate facilities. The facilities cannot be secured without the ability to raise money by the issuance of capital obligations. Bonds and stocks cannot be sold unless the revenue is sufficient to give assurance that interest and dividends will be paid. The rates for transportation must be such as to yield such adequate revenue, and at the same time they must not be more than is necessary to accomplish this result. Public utilities cannot be operated as a source of private profit beyond the amount necessary to establish proper credit.

The fundamental principles of the problem as finally recognized in the Transportation act were first presented to the Senate Committee on Interstate Commerce by the Associated Industries of Massachusetts, in January, 1919.[1] The act cannot be understood without a thorough understanding of what that problem is. One of the principal difficulties in securing a general increase

[1] Hearings before the Committee on Interstate Commerce, United States Senate, on Extension of Tenure of Government Control of Railways, pp. 704-738.

in rates during the last ten years has been the ever present idea in the mind of the commission that an increase in rates which would give only sufficient revenue to the majority of railroads would give a revenue greatly in excess of the needs of the strong roads. This is inevitable under a competitive system of transportation. Take for example the cases of four competing systems in the Middle West, the Chicago, Burlington & Quincy, the Chicago & Northwestern, the Rock Island, and the Chicago Great Western —all systems which compete for a very considerable portion of their traffic. During the three pre-war years the Burlington earned on an average more than 25 per cent on its capital stock; the Chicago & Northwestern about 12 per cent, and the other two railroads only about 1 or 2 per cent. These three pre-war years were the best years, on the average, which the railroads ever had, and yet two of these four large systems were unable to establish their credit on the existing basis of rates. If rates were raised to a point which would establish the credit of the two weaker roads it would result in giving the Burlington and the Chicago & Northwestern revenue vastly in excess of the amount necessary to establish their credit. On competitive systems rates must be the same, otherwise the system having the lower basis of rates will secure the competitive traffic and the condition of the poor roads would be hopeless.

To Senator Albert B. Cummins of Iowa is due the credit of recognizing the problem and of formulating legislation calculated to solve it. This principle is stated with clearness in that section of the Transportation act which is probably its most fundamental section. Section 422, paragraph (5) is as follows:

> Inasmuch as it is impossible (without regulation and control in the interest of the commerce of the United States considered as a whole) to establish uniform rates upon competitive traffic which will adequately sustain all the carriers which are engaged in such traffic and which are indispensable to the communities to which they render the service of transportation, without enabling some of such carriers to receive a net railway operating income substantially and unreasonably in excess of a fair return upon the value of their railway property held for and used in the service of transportation, it is hereby declared that any carrier which receives such an income so in excess of a fair return, shall hold such part of the excess, as hereinafter prescribed, as trustee for, and shall pay it to, the United States.

In order to solve the problem arising out of the competitive situation, the act provides a method entirely new to rate regu-

lation, upon the successful operation of which depends the ultimate question of whether the railroads can be successfully operated under private management.

The first step is for the commission to determine the value of the railroad properties. Congress has followed the general trend of economic thought and the practice of public tribunals in utilizing valuation as the basis upon which return must be reckoned. The public *is gradually coming to the conclusion that valuation is only of importance in protecting the private rights of the carriers*, and offers very little help in determining what revenue is necessary in order to enable the carriers properly to perform their functions.

The next step in the process, after value has been fixed, is to determine whether the railroads of the country shall be treated as a whole, or shall be divided into rate and valuation groups. The commission has the option of treating the country as a whole or of dividing it into any number of such groups. When the groups have been determined and the valuation of the railroads within each group arrived at, the commission, for the two years beginning March 1, 1920, "shall initiate, modify, establish or adjust" rates so that "under honest, efficient and economic management and reasonable expenditures for maintenance of way, structure and equipment," the carriers shall earn a net railway operating income equal to 5½ per cent on the aggregate value. The commission, "may, in its discretion, add thereto a sum not exceeding one half of one per centum of such aggregate value to make provision in whole or in part for improvements, betterments or equipment."

It is to be observed with care that the commission is not to establish rates so that each railroad shall earn 5½ or 6 per cent on its value (for under competitive conditions this would be impossible), but that the rates shall be established so that the carriers as a whole or in such groups as the commission may determine shall earn the designated return. Under such an adjustment railroads, because of greatly varying earning powers, may earn little or nothing on their value, or may earn 10 or 15 per cent, or even more.

Six per cent on the value of the railroad property may mean 8 or 9 per cent on its capital stock, depending upon the relative amount of stocks and bonds and the interest which the bonds

carry. Such an amount of earnings applicable to interest or dividends may be sufficient to establish the credit of a majority of the railroads within a common territory, under present conditions. *Congress very wisely refrained from exercising its legislative* judgment in determining what rate of return would be necessary two years from now.

After March 1, 1922, the commission is given the broadest latitude in determining what is a fair return upon the value of the railroad property. Paragraph (2), in part, is as follows:

> In the exercise of its power to prescribe just and reasonable rates the Commission shall initiate, modify, establish or adjust such rates so that carriers as a whole (or as a whole in each of such rate groups or territories as the Commission may from time to time designate) will, under honest, efficient and economical management and reasonable expenditures for maintenance of way, structures and equipment, earn an aggregate annual net railway operating income equal, as nearly as may be, to a fair return upon the aggregate value of the railway property of such carriers held for and used in the service of transportation: Provided, That the Commission shall have reasonable latitude to modify or adjust any particular rate which it may find to be unjust or unreasonable, and to prescribe different rates for different sections of the country.

This is the delegation of a tremendous power to the commission. It may be a delegation going beyond the constitutional limitations of the power of Congress. Nevertheless the commission is obviously the tribunal best equipped to determine the rate of return which is necessary in order to accomplish the results set forth in paragraph (3), namely: "In making such determination it shall give due consideration, among other things, to the transportation needs of the country and the necessity (under honest, efficient and economical management of existing transportation facilities) of enlarging such facilities in order to provide the people of the United States with adequate transportation."

The rate of return on the value of the property must always be translated into terms of return applicable to the payment of interest and dividends on securities before it is possible to determine whether any rate of return is adequate to establish credit. During the period of about ten years preceding the war an average net return of about 8½ or 9 per cent available for dividends was necessary in order that a railroad might issue its stock at par. With the general increase in price level doubtless a larger amount

of net income may be necessary if money is to be raised by the issuance of securities.

Many problems will confront the commission in determining *what is a fair return. If Congress meant by "fair return" merely* the protection of the carriers' constitutional right against confiscation, hardly satisfactory results will be accomplished. The phrase ought to be interpreted to mean such a rate of return as will enable the carriers properly to finance their requirements. If "fair return" means merely the minimum return guaranteed under the constitution, it would seem quite clear that Congress could not delegate such an authority to the commission. If "fair return" means such return as is adequate to establish the credit of the railroads it would seem to be a proper delegation of authority. The determination of what is necessary for this purpose involves careful study of fluctuating market conditions, and the commission is obviously in a position better to determine this from time to time than the Congress of the United States. It would seem pretty clear from the language of paragraph (3) that the latter interpretation is correct, for the commission is called upon to give due consideration to the transportation needs of the country and the necessity of enlarging facilities in order to provide adequate transportation. The determination of the amount of total revenue based upon value of railroad properties may be the only practicable way of arriving at the amount which is necessary to accomplish the purposes of the act, but such an amount must be translated into terms of income applicable to interest and dividends before the judgment of the commission can properly and effectively be exercised.

Then follows the provision, which was so bitterly opposed by the strong railroads, that any railroad earning 6 per cent on the value of its property should pay to the government one half of the difference between such 6 per cent and the amount earned. This amount over 6 per cent, commonly called excess profits, goes into two funds—the share of the railroad and the share of the government. The share of the railroad is hedged around with certain restrictions and can be used only for certain purposes. It must go into a reserve fund and can be drawn on only "for the purpose of paying dividends or interest on its stocks, bonds, or other securities, or rent for leased roads," until such reserve fund is "equal to five per centum of the value of its railway property."

After the fund reaches this amount it may be drawn upon for any other lawful purpose.

The half of the excess profits which goes to the government is placed in a fund called "the general railroad contingent fund," which becomes a revolving fund administered by the commission. "It shall be used by the Commission in furtherance of the public necessity in railway transportation either by making loans to carriers to meet expenditures for capital account or to refund maturing securities originally issued for capital account, or by purchasing transportation equipment and facilities and leasing the same to carriers."

We have here, therefore, an attempt to solve the ever present problem of the weak and the strong roads. A method is provided for transferring from the strong roads a portion of their excess profits which are utilized for the purpose of providing the weak roads with credit and facilities. Although this provision was attacked by the railroads as unconstitutional during the pendency of the bill in Congress, it is believed that under sound economic and legal principles there is no constitutional objection to it.

Consolidation of railroads.

It was the belief of the Senate Committee on Interstate Commerce that the problem of the weak and the strong roads ultimately should be solved by the consolidation of the various railroad systems into a limited number of large systems. It was proposed in the bill which passed the Senate that the railroads should be consolidated into not less than twenty nor more than thirty-five systems which should be so arranged that competition would be preserved. It was proposed that a plan of consolidation should be prepared along such lines, and that for the period of seven years consolidations could voluntarily be made according to the plan, but that at the end of seven years consolidation should be compulsory. By establishing competing railroads of substantially the same financial strength it would thus be possible to do away with the necessity of transferring any excess profits of the strong roads for the benefit of the weak roads. It is well known that Senator Cummins held most tenaciously to this consolidation plan, but in conference was obliged to sacrifice it in order to secure an agreement.

The act, however, provides for consolidations, but not for compulsory consolidations, and this feature is important and may in practice prove so satisfactory that the original Senate plan of a few strong competing railroads may be worked out.

Paragraphs (4) and (5) of Section 407 provide that competition shall be preserved as fully as possible and that the systems shall be so arranged that the same rates on traffic will provide substantially the same rate of return upon the value of the respective properties.

The successful operation of the consolidation plan depends, of course, entirely upon the attitude of the stockholders of the corporations. There was a time when the managers of the railroads were somewhat imperialistic in their conceptions, when the strong roads would eagerly have seized this opportunity to consolidate other lines, and even weaker lines, into their systems, but because of the scantiness of earnings of late years there is some serious doubt whether the strong lines will want to dilute their earnings by taking in the weaker lines.[2]

Exclusive federal control over the issuance of securities.

One of the difficulties which in the past has confronted the railroads in raising money is that the approval of every state in which the railroad is incorporated, and even in states in which it is not incorporated but through which it runs, must be secured. The legislatures and the state commissions have often imposed onerous conditions before giving their approval to the issuance of securities. For example, at the time of the consolidation of the New York Central system the state of Illinois imposed a license fee of $600,000, while the other states through which the system ran imposed only nominal charges. The Arizona commission attempted to impose a condition upon the Southern Pacific, when it asked approval for the issuance of $30,000,000 in securities, that a certain portion of the proceeds should be expended—in the judgment of the railroad unwisely—within the limits of the state. Furthermore, it sometimes happens that the laws of the states through which a railroad runs may be so conflicting as to make it

[2] Section 407 also authorizes pooling under authority of the Interstate Commerce Commission, provided such pooling does not unduly restrain competition. It is doubtful if this becomes important unless the railroads are taken over by the President in time of war under his power conferred by the act of August 29, 1916.

practically impossible to secure the approval of all commissions to the financial plan determined by the railroad.

The new act gives to the Interstate Commerce Commission exclusive jurisdiction over the issuance of securities, and thus greatly simplifies the mechanical processes of securing approval and prevents improper restrictions by state authorities. There is one power given to the commission which may prove embarrassing if the commission should unwisely assume an authority which properly belongs to management, and not to regulation. The commission must determine whether the purpose for which the money is to be expended is "reasonable, necessary, and appropriate" for the proper performance of service to the public. It also gives to the commission absolute authority to prescribe the terms and conditions under which the securities shall be issued.

If the commission should exercise the authority which is given it, it would be obliged to determine many of the details of management. It would have power to determine, and it may be that under the act it would be compelled to determine, for example, whether a certain terminal should be enlarged, whether a certain line should be double-track, whether a certain type of car or locomotive should be used; and in this way it would substitute its own judgment for the carefully formed judgment of the board of directors. One of the evils of regulation of public utilities is the danger that powers of management will be assumed by public authorities. Such authorities are not in position to determine, as a practical matter, the extent or need of improvements. If we are to have private management we must place upon the managers the largest possible measure of authority, and must not destroy their initiative. The Interstate Commerce Commission up to the present time has given no indication that it will seek unnecessarily to cross the line of proper regulation and assume the responsibilities of management. In some matters which have come before it, it has very clearly indicated that it does not purpose to assume such responsibility.

A second important result accomplished by exclusive federal regulation is that financial manipulation under the lax laws which exist in some states will be impossible. It provides a restraint which, if it had existed twenty-five years ago, would have prevented many of the recent railroad scandals.

Power over intrastate rates.

One of the most unfortunate results of state regulation has been acts of the legislatures and orders of the commissions establishing intrastate rates upon a lower basis than corresponding interstate rates, with the inevitable result that interstate traffic was curtailed and a proper portion of the transportation burden was not borne by the purely state business. The avowed purpose of some of the states in exercising their power over intrastate rates was to construct a traffic barrier at their boundaries in order to encourage the development of their own industries. The long controversy which has existed between Texas and Louisiana is only one of many instances of this kind. The result of such a narrow state policy has ordinarily been to compel the railroad to reduce its interstate rates to the level of the intrastate rates, and thus to deprive it of revenue which was sorely needed.

The commission is not given the power to initiate state rates, but it is given the power to establish such rates when the existing state rates unjustly discriminate against interstate or foreign commerce. Whenever state rates are involved the commission may confer with the state commissions, but its judgment as to the effect of state rates on interstate commerce is final.

Car service.

During the pendency of the Cummins-Esch bills the provisions relating to "car service" received little public attention, and yet contained in a few brief sections of the act relating to this subject are some of the most far-reaching and important powers which ever have been conferred upon the commission. The so-called Esch act, approved May 29, 1917, gave to the commission certain powers relating to the control of the movement of cars. With the exception of these limited powers the Interstate Commerce Commission has had little power over railroad operations. Its powers were confined largely to questions of rates. By the new act it is given tremendous power in the regulation of service.

Section 402, paragraphs (10) and (11) give to the commission this power. These paragraphs are as follows:

(10) The term "car service" in this Act shall include the use, control, supply, movement, distribution, exchange, interchange, and return of locomotives, cars, and other vehicles used in the transpor-

tation of property, including special types of equipment, and the *supply of trains, by any carrier by railroad subject to this Act.*

(11) It shall be the duty of every carrier by railroad subject to this Act to furnish safe and adequate car service and to establish, observe, and enforce just and reasonable rules, regulations, and practices with respect to car service; and every unjust and unreasonable rule, regulation, and practice with respect to car service is prohibited and declared to be unlawful.

Under this provision the commission not only can regulate the movement of cars and locomotives but by order can compel the railroads to purchase all classes of equipment.

Other paragraphs of the car service section give equally great powers to the commission. Under paragraph (14) the commission may determine the compensation which one railroad shall pay to another for the use of cars. This is a control over what is commonly known as "per diem," or the amount of daily rental paid by one company to another while the cars of such company are used by the other company. No subject in intercorporate relations has been more acrimoniously discussed among the railroads than this subject of car rental. The importance of it is readily seen by considering the fact that if the rental is low there is an incentive for a railroad not to provide itself with its own cars, but to use those of other companies; whereas if it is high there is a tendency to build cars for the purpose of renting them to other companies.

One of the difficulties encountered in conducting transportation by numerous carriers is the impossibility of properly coördinating the use of cars, and to some extent the use of locomotives. Shortage of cars often exists in one section with surplus of cars in others. There has been no central authority which could equalize conditions. That power is now given to the commission under paragraph (15) of section 402; this gives the commission power to suspend all rules relating to the movement and interchange of cars, and to require not only the common use of cars and locomotives but also of terminals.

The effect is to enable the equipment of the carriers to be utilized in the most effective manner. It is an attempt to remedy the most serious difficulty in independent operation by a multitude of carriers. If the power is exercised with intelligence and moderation it will accomplish almost as much for effective operation of railroads as any provision of the Transportation act. It

is bound, however, to occasion much complaint, for any effort to *supply the shortage of equipment in one section of the country or in one industry may result in depriving other sections of the country or other industries of the car supply which they may require.*

The exercise of this power will undoubtedly result in utilizing to its fullest capacity the existing equipment, with the consequent result that such vast sums will not have to be invested in equipment as would be required if each section of the country were dependent for its car supply upon the equipment of the carriers serving that section.

One of the powers conferred upon the commission by section 402 is the power when shortage of equipment or congestion of traffic, or other emergency requires immediate action, "to give directions for preference or priority in transportation, embargoes, the movement of traffic under permit, at such time and for such periods as it may determine." This is a power which is greater than ever was conferred upon any department of government in time of peace. In June of this year the commission, acting under this authority, ordered all open top cars to be sent to coal mines. This resulted in depriving shippers of other commodities which used such equipment of all transportation. The result of the order was to put a stop very largely to construction of buildings and of highways which required sand, gravel, and stone—articles which could be transported only in open top cars. It had a paralyzing effect upon many lines of industry. It may be that the commission properly exercised its power because of the great urgency for the transportation of coal. It may have been a wise exercise of power and have prevented greater suffering than would have resulted from a free use of such cars for all purposes. The point is not the wisdom of the act of the commission, but the tremendous power over industry which was given to the commission by this act. Power over priority in transportation in time of war was undoubtedly necessary in order that the imperative needs of the Army and Navy might be met. It is a grave question whether such a stupendous power ought to be conferred upon any regulating tribunal in time of peace. No power has a greater tendency to transfer the obligations of management to a regulatory body and to result in tremendous centralization of power in a governmental body.

Extension and abandonment of line.

During the intensive period of railroad building a quarter of a century and more ago many railroads were projected which were not required, with the result that traffic which could be handled by one railroad was often distributed over two or more, with the result that all the competing lines were unnecessarily handicapped in the securing of adequate revenue. Under the terms of the act, —paragraphs (19), (20), and (21) of Section 402— no new railroad and no extension of an existing railroad can be made without a certificate from the commission that such railroad or extension is in the public interest. It is also provided that no line can be abandoned without the consent of the commission.

Long and short haul amendment.

The principal cause of controversy over the regulation of railroads during the last forty years has arisen from the practice of railroads when competing with other railroads, or with water lines, to meet the competitive rate at the competitive point, with the consequent result that the rates to the intermediate or non-competitive points are higher than the rates to the competitive points. This practice has an economic justification, but that is of little consolation to a community which sees freight passing through destined for a more distant point and carried at a rate often very materially less than the rate to an intermediate point.

Under the Interstate Commerce act, as amended in 1910, departures from the requirements of the rigid long and short haul rule were permitted only upon approval of the Interstate Commerce Commission. The commission, however, recognized the economic necessity of a lower charge to the more distant point under competitive conditions and very freely granted authority to meet the competition without reducing intermediate rates. The Transportation act (section 406) is an attempt to reconcile the two contending forces. This has resulted in the enactment of a provision which is not clear and which undoubtedly will be the subject of litigation. The commission is given authority to relieve a carrier from the operations of the rigid long and short haul section, "but in exercising the authority conferred upon it in this proviso the commission shall not permit the establishment of any charge to or from the more distant point that is not reasonably compensatory for the service performed."

What "reasonably compensatory" means no one will know until the courts have finally interpreted the phrase. *Fortunately, the Interstate Commerce Commission has a very just appreciation of* the economic conditions necessitating the lower charge to the competitive point, and if the amendment can be construed to recognize the continuance of competition—and the maintenance of competition is the underlying principle of the entire act—it can be depended upon to exercise a reasonable and just discretion in authorizing departures from the rigid requirements of the clause.

Division of rates.

The vast bulk of transportation is over more than one railroad. The rates are ordinarily joint rates and the division of the rates among the carriers rests upon agreement between them. Heretofore the commission has had no power to fix the proportion of the revenue which should go to the several carriers—that is, in technical terms, to fix the divisions, except when the commission established a through route and a joint rate and the carriers were unable to agree among themselves as to the proper divisions.

The Transportation act (section 418) gives to the commission power upon its own motion, or upon the complaint of a carrier, to establish these divisions. Equally important with this new power is the rule which Congress has laid down for the commission to follow in making these divisions. Paragraph (6) provides that the commission, in establishing divisions, shall take into consideration, among other things, the fair return on the value of the railroad property of the respective railroads as well as all the factors relating to the relative cost of transportation.

The real significance of this mandate is that it enables the commission to carry out to some extent the fundamental principle underlying the Transportation act, by enabling the commission to transfer from the stronger lines to the weaker lines some part of their surplus earnings, not, of course, arbitrarily, but within the terms of the mandate. For example, if one of two railroads, under the adjustment of rates prescribed by the commission, earns more than a fair return on its property and the other road earns less than a fair return, the commission must take this fact into consideration. It must also give consideration to the relative cost of operating. If it believes that a carrier has not been able by private agreement to receive a division of the rates sufficient to

overcome any greater cost of operation, as, for instance, if the carrier is a terminal railroad it must compensate the carrier for its added cost.

Power of the commission to establish minimum rates.

Until the passage of the Transportation act the commission had no power to fix a definite rate, but merely power to establish rates which should be regarded by the carriers as the maximum rates. In the past the carriers, in fierce competition for traffic, have sometimes established rates which were probably so low as not to pay out-of-pocket expenses, with the result that a higher burden was thrown upon other traffic. Sometimes in the competition of carriers serving the various ports from the great grain-producing territories the carriers entered upon rate wars which seriously affected the stability of rates. At times the carriers, in order to meet water competition, would reduce their rates to the competitive point to such a basis as to kill the boat lines. The power to establish minimum rates was given for the purpose of correcting these practices.

Miscellaneous provisions.

There are other provisions of the Transportation act which are of more or less importance, but space does not permit discussion of these amendments. There are amendments dealing with the limitation of time within which actions may be brought against the Railroad Administration and against the carriers; routing of freight by the commission; power of the commission to provide credit rules for the collection of freight charges; power of the commission to authorize the continuance of the American Railway Express Company; power to simplify rules relating to filing of rates; additional powers over the establishment of through routes and joint rates; the inclusion of stockyard charges in the through rate; limitation of the time for the suspension of rate schedules; encouragement of water transportation; power to examine correspondence of the officers of a carrier; limitation of the liability of a rail carrier for loss by a connecting water carrier; unlawfulness after December 31, 1921, for any person to hold the position of officer or director of more than one carrier unless authorized by the commission; increase in the number of commissioners to eleven and increase of salaries to $12,000; additional

power in prescribing bills of lading; power to compel the installation of automatic train control devices.

Conclusion.

The outstanding feature of the Transportation act is that it is radically constructive. While there are many corrective features there are helpful features from the point of view of railroad operations. Its main purposes are to establish the credit of the railroads upon a basis which will not put too great a burden upon the users of the railroads, and to give to the Interstate Commerce Commission such powers as appear necessary in order to correct the faults inherently arising in independently operated railroads. The truly remarkable thing is that a comprehensive and properly articulating act has been constructed out of two bills so radically different as the Senate and House bills.

The conciseness and clearness of the language of the act is no less noteworthy. There is little ambiguity, except perhaps in the long and short haul provision, which was intended to be ambiguous.

Although the act may not fully solve the underlying problem of the weak and the strong railroads, it is a mighty step in that direction and subsequent legislation will probably be merely supplementary.

EDGAR J. RICH.

INTEGRATION IN MARKETING

As we look around us today in the wide field of marketing, we see a *most confused mass of struggling marketing methods. Any student of the marketing problem will agree that, at the present* time, a most unfortunate and wasteful amount of duplication and friction exists in marketing, partly on account of this chaotic condition. The old, smooth channel of distribution from manufacturer to wholesaler, to retailer, has been cut into and diverted by chain stores, retailers' buying exchanges, and "direct marketing" by manufacturers, to say nothing of the "mail-order house," and a dozen variations of these main types. Under existing conditions, it is impossible to say with certainty for all industries just what is the best type of marketing organization from the standpoint of public welfare. It will be helpful, however, to analyze some of the forces now at work with the purpose of appraising the apparent trend toward integration in marketing.

Certainly one must be impressed by the fact that integration in marketing has made some progress. Under existing conditions, there appears to be a tendency in certain industries for such marketing to increase. It behooves one, therefore, to inquire what are the grounds for this tendency and whether they are indicative of public benefit. These grounds I will discuss under two heads: first, the economic forces, and second, the unfair or uneconomic methods which sometimes reïnforce the more fundamental tendencies.

The method, therefore, will be to analyze all considerable forces tending toward integrated marketing, and from the nature of these forces to judge whether the result is good for the public. The field covered will be confined practically to the marketing of food products from manufacturer to consumer, in which field the wholesale grocer is one of the chief agencies. It is believed, however, that much of the analysis and many of the conclusions will apply to the marketing of other products.

By "integration in marketing" is meant combination among the separate marketing stages (*e.g.*, wholesaling and retailing) or any combination of marketing with manufacturing or extractive industry. There is no necessary relation between such integration and large-scale marketing, but in practice integration is so often combined with large-scale marketing that frequent reference will be made to the latter, and a section is devoted to a discussion of the advantages of large-scale marketing of groceries.

Economic forces tending to integration in marketing.

1. When a commodity is distributed among very large purchasers, *either those who consume it as a raw material, or who distribute it at retail, there is a tendency both to large-scale and to* integrated marketing. For example, the marketing organization for refined copper is highly centralized and integrated, and this is probably necessary and desirable. Much the same is true of steel. Also, the growth of department stores tends toward integration in marketing as they have the well-known tendency to purchase direct from the manufacturer or even to acquire their own manufacturing plants. Conversely, when the consumers or final distributors are small and scattered, there is less tendency to integration and such integration as exists under these conditions is less likely to be based on sound economic grounds.

2. When the manufacturing is highly concentrated among a few large producers there is not only large-scale marketing but also there appears to be some tendency toward integration in marketing. When the manufacturers are few, there is less need of independent brokers and wholesalers to combine and handle their outputs; and when they are large and financially powerful, they are able to provide the capital and skill required for successful marketing. •This tendency may be due to the possession of large surplus earnings which are available for use in extending the position held by the company in the industry, especially when this situation is accompanied by a desire of the company to insure a stable outlet for its product or to maintain prices to the consumer. The tendency may also arise from, or be increased by, the need of introducing some new and expensive method of marketing which the established marketing agencies are slow to adopt. All of these conditions may be found in the expansion of the large meat packers and oil refiners into the marketing field.

An interesting phase of this same point lies in the fact that the tendency to produce proprietary goods, or trade-marked specialties, by individualizing products of manufacturers, brings about a type of centralization; for then only one manufacturer produces the one brand of corn flakes or toothpaste.

It is noted that the tendency to centralization of marketing, insofar as based upon centralized manufacturing, may increase the field of monopoly, since one or more manufacturers having monopoly power, by acquiring the wholesale distribution of this

product may eliminate the competition which exists among independent wholesalers and increase the average spread between the f.o.b. factory price and the price to the retailer. Moreover, the acquisition may be accompanied by economic waste through the encouragement of overgrown manufacturing units and excessive advertising campaigns (*e.g.*, meat packers).

3. The marketing of goods which are heavily, though not excessively, advertised tends to become integrated. Many advertising campaigns of the present day are highly expensive and mean a great overhead which must be compensated by a large volume of sales. The manufacturer who is sinking great sums in advertising insists that the commodity in question must be pushed by the distributor, as over against other commodities, and this he sometimes feels no one who is engaged in distributing numerous competing lines can do. He is therefore prone to take a hand himself, and even to "go direct" to the retailer or consumer. At least he puts his "specialty" salesmen, or "detail men" in the field and thus drives the entering wedge for direct marketing. He has expended hundreds-of-thousands or even millions in advertising, and he desires to secure all the profit that there may be on his goods as sold to the consumer. He desires to prevent price-cutting, and, in short, he seeks to keep his hands upon his goods until they are finally disposed of.

4. Closely connected with the advertising factor is the multiplication of specialties. Numerous new trade-marked articles and branded goods are constantly being put upon the market, and as the new lines come out each requires a special advertising campaign and special pushing with the trade in order to get its place in the already long list of similar goods, which have a different colored label or a slight difference in the first syllable of the name. The jobber or retailer may not see the need for pushing the new brand of underwear, or canned peaches, and therefore the manufacturer goes "direct," and integration in marketing results.

5. Other things being equal, goods which have a high specific value are more likely to be handled by an integrated marketing organization, for here the freight cuts little figure, and the economies which arise from distributing by carload to local jobbing centers are less important. Illustrations may be found in mail-order houses and "direct selling" by manufacturers.

6. Some commodities in their marketing require special service to the consumer, as, for example, such machinery as typewriters and phonographs. These goods have to be demonstrated and kept in repair, and here the interest of the manufacturer is such that he will probably sooner or later take over the marketing of his product. This may result in a really better service to consumers, and if so is a public benefit.

7. The development of aggregations of interrelated lines of goods has been a factor making for both large-scale and integrated marketing. This is illustrated by the larger meat packers, the International Harvester Company, sporting goods stores, department stores, and others. Either because of (a) conditions in production such as integration or utilization of by-products, or because of (b) a grouping of interrelated wants by consumers, a tendency exists in such cases toward unification in the marketing of groups of products. Often this gives rise to large-scale marketing, and if, as is sometimes the case, the various products have been separately marketed through independent wholesale and retail agencies, a centralization or integration also results. This may be because wholesalers are organized to handle the various products separately. Of course, such a movement may mean real economy or it may represent an application of mere acquisitive power and "full line forcing." The development of marketing by the large meat packers illustrates all these aspects. They have combined hundreds of products, both by-products and others, partly because of joint production, partly because of economies found in large volume of manufacture and transportation, and partly because of a desire among consumers to buy complementary or interrelated goods from a single source, *e.g.*, groceries, butter, eggs, and meats. It is interesting to note that this has been an important matter in foreign trade, and one of the chief arguments for export combinations lies in their ability to supply a full line of goods and services.

8. Economies within the marketing process may sometimes be gained by large-scale, integrated methods, and the possibility of such economies constitutes a normal economic force making for the spread of such methods. These economies appear in the technique of accounting, salesmanship, credits, and collections, etc. They have been partly responsible for the growth of "chain stores" and the recent formation of such marketing "trusts" as the United Retail Stores Corporation. This organization is a com-

bination of "chains" of retail stores (candy, cigars, groceries, dry goods, etc.), a mail-order house, and factories, embracing the United Cigar Stores Company and Montgomery Ward and Co.

Most of the foregoing factors or forces are not socially harmful in their results. Some are economically good, as a general rule (6, 7, 8); others are dangerous at times (2, 4, 7); while others are a matter of indifference (1, 3, 5). There are, however, a number of methods or practices in use in the marketing of food products which are of more doubtful desirability.

Unfair or uneconomic methods tending to integration in marketing.

Some of the more important of such methods or practices now common in marketing which tend to integration are as follows:

1. *Excessive advertising.* Surely in these days of paper shortage, a line can be drawn between reasonable advertising, which has an economic justification and is in the public interest, and such advertising as is excessive and uneconomic—is, in short, wasteful and unjust to the public. Surely no good interest is served when a concern takes a double page in the *Saturday Evening Post,* and in two colors displays the picture of a plate of ham and eggs. It is hard for the thoughtful consumer to restrain himself when confronting such waste. Suffice it to say that this sort of advertising is purely acquisitive; and, as already indicated, it is one of the chief factors tending toward integrated marketing.

2. *The discriminating quantity discount, and other "inside prices."* Aside from advertising, one of the strong factors tending toward integration and large-scale marketing, is the practice of making various special reductions in price to favored buyers. This is perhaps the most disturbing element in the marketing structure, and—again aside from matters connected with advertising—is, in one form or another, the chief cause of friction among manufacturers, wholesalers, and retailers today. Retailers hear that some wholesaler or manufacturer has been making special prices to the large buyer, perhaps a chain store system. They get together and form a coöperative buying "exchange." The jobber learns that the manufacturer is giving the jobber's discount to some large retail concern or perhaps a chain of stores, and endeavors to fight fire with fire. Of course the result is discrimination; lower prices are made to particular buyers, and the seller has to make his profit from other buyers who are not thus

favored, which but increases the discrimination. Unreasonable "cash discounts" are given, commissions are "split," and "free deals" put on, with the result that confusion and friction reign; and, out of it all, the big retail buyer tends to emerge along with the big and financially powerful manufacturer. The whole process looks toward monopoly.

Obviously, too, it is not one that can be generalized; for if quantity discounts are given to everyone they lose their "pulling power." A sound test of the desirability of such things lies in the question: "Can everybody do it?" The quantity-discount system, as at present used, fails to meet this test.

Of course, the quantity discount may be made on sound economic grounds when and to the extent that purchasing in large quantities means a service rendered and a saving to the seller. No harm comes from this, and what has just been said does not apply to it.

It will be noted that the large buyer ordinarily has to have larger storage, etc., to handle his larger purchases, thus increasing his capital or expense, and consequently he perhaps does not receive any larger net profit on investment than the smaller buyer. More than this, he generally depends considerably for apparent reduction in prices, upon a reduction in service given, he cuts out the service rendered by the wholesaler's salesmen and the credit and delivery service of the retailer.

Particularly aggravating to the jobber, and destructive of system in marketing, is the practice among some manufacturers of giving the regular jobber's discount—say 10 per cent—to buying organizations which do not give the service that the jobber does.[1] This is virtually an "inside price." We find this a factor in the growth of chain stores and retailers' buying exchanges.

3. *Specialty salesmen and "drop shipments."* The use of "specialty men" by manufacturers, especially if accompanied by the practice of making so-called "drop shipments," *i.e.*, shipments made by manufacturers direct to retailers, but billed through wholesalers, probably is to be regarded as a factor tending toward integration in marketing. The manufacturer who sends out his own salesmen, if they take orders, is on the way to "direct market-

[1] The jobber maintains a force of salesmen who render a valuable service especially valuable to the manufacturer, and assume important credit functions.

ing" even though the goods may more or less nominally pass through the hands of the jobber.

4. *Full-line forcing.* As already observed the production of numerous more or less related lines of products tends toward integration in marketing. It may lead to the practice of "full-line forcing." The manufacturer who produces and advertises a list of commodities naturally desires to have the distributor handle his whole line of products. He is not satisfied with a distributive mechanism which perhaps pushes his canned fruit but not his package coffee. Regardless of economy, he therefore tends toward the establishment of a more or less centralized marketing organization which will handle his whole line.

5. *The manufacturer's guarantee against decline in price.* It is the practice of manufacturers of some grocery products, such as canned milk and soap, to guarantee compensation to the wholesaler for any decline in price during a period following a purchase. In the first place, only the larger and financially powerful manufacturers can afford to take this risk, and the guarantee has been used as a sort of bribe to get trade away from weaker competitors. In the second place, the guarantee amounts to an assumption by the manufacturer of a part of the wholesaler's proper risk, with the result that the latter's independence is decreased. It amounts to taking away one of the normal functions of the wholesaler, and tends to reduce him to the status of manufacturer's agent. To be sure, many jobbers desire this guarantee, but it is doubtful if they realize the dangerous tendency of the practice.[2] Finally the manufacturers who guarantee prices commonly exercise a control over the price of their products which may increase monopoly if such power exists.

6. *Maintenance of resale price.* The practice of manufacturers refusing to sell to wholesalers who do not maintain a resale price fixed by them, is to be condemned on grounds of public policy, but here we are concerned only with its effect upon concentration in marketing. Like the guarantee against decline, it causes some tendency toward integration by diminishing the wholesaler's independence, as it virtually makes him a mere manufacturer's agent for the commodity concerned. The practice also

[2] I believe they are generally the smaller or weaker concerns.

works indirectly by encouraging excessive advertising and the multiplication of specialties.[8]

7. *Inequality in margins, and "leaders."* In closing this list, perhaps I should mention one factor which may or may not be unfair and uneconomic. This is the inequality in margins of profit which exists in the various items handled by any wholesaler or retailer. For instance, take the well-known case of sugar, which is, as a rule, handled without net profit by the grocery trade. In most branches of distribution some products show a wide margin of profit, while others show small margins, and still others a loss. This is on the whole not a healthful condition, and its connection with the movement toward integration or large-scale marketing is shown by the fact that this inequality appears to be increased by the operation of chain stores, department stores, mail-order houses, etc. Such distributive agencies depend largely upon "leaders." They depend to a considerable extent upon inside prices, on quantity discounts, and the price-cutting tactics which usually accompany these things. Thus we see that the inequality in margins referred to is closely connected with unfair or uneconomic methods. In the long run, the public is not benefited.

Summary criticism.

The whole list of unfair or uneconomic methods which tend toward integration may all be summed up under the head of discrimination. Special favors are extended or special services required, and one group of purchasers is benefited at the expense of another, with the result that the favored ones survive. The methods cannot be generalized. They are acquisitive. They are not methods which result in public benefit.

More than this, of the entire list of forces, tendencies, or methods thus far referred to, few seem to show any net advantage *to the public*. This is true, both from the point of view of economy in marketing, and from the point of view of the general desirability of the tendencies themselves. The integrated handling of such products as copper appears to be economical, and the large retail organizations like the department stores have found a permanent place in the normal marketing system. Integration, as a means of securing the introduction of expensive but economical

[8] See discussion in *Proceedings of the American Economic Association* (1915), where the writer enlarges upon these points.

marketing methods, may be beneficial. Also the large manufacturing establishment and centralized production *in manufacturing are desirable up to a certain extent, depending upon the location* of the point beyond which large scale becomes monopoly, or the wastes of oversize begin to counter-balance the advantages of large-scale methods. It is doubtful if the largeness of the demand of consumers, or of the output of manufacturers goes any great way toward explaining such tendencies to integrated or large-scale marketing as are now under discussion. Indeed, it was with the growth of manufacturing economy after the industrial revolution that the regular chain of distributors, including wholesalers and retailers, developed, and most manufacturers, especially of staple commodities, find it profitable to market their products in the regular way. Probably over 90 per cent of the volume of distribution of food products goes through the "regular" channel.

As to the advertising factor, enough has been said already to indicate the reasons why we must conclude that advertising is sometimes overdone, and that it and the tendency toward integrated marketing which it causes, represent economic waste. The economies in marketing which are attributed to excessive advertising, mostly simmer down to the argument that volume of sales is increased, thus reducing the unit cost of distribution. When it is remembered, however, that this increase in volume is ordinarily at the expense of greatly increased waste of competition, it would seem that the alleged economy in marketing is not one which results in benefit to the public. It may be doubted if there is any tendency to pass along to the consumer a saving in marketing expense which might come from advertising, even if one existed.

Certainly the multiplication of new lines which is so potent in causing manufacturers to go "direct," is overdone from the point of view of the public, and instead of leading to economy in marketing, the result is a multiplication of marketing agencies which is wasteful and increases the total expense of getting the total supply of a given kind of commodity on the market.

The specialties of high specific value which are sold over wide territories by centralized marketing methods, are not put in the consumer's hands any more economically thereby, since the reason for centralization in their marketing lies in their relatively high price and the wide margin of profit that is made on them. This is not a matter of economy but a matter of profit for the distributor.

It is probably true that integrated marketing of certain products *which require special demonstration and service, is* necessary and desirable. It will be observed, however, that this does not necessarily mean large-scale marketing.

The use of specialty salesmen by manufacturers is, from an economic point of view, partly good and partly bad. Such salesmen sometimes render a real service in demonstrating goods; but often they represent a duplication of effort which is accentuated when the product concerned already has "100 per cent distribution," that is, one which every retailer knows and has to carry to meet consumer's demands. In large measure the expense of such salesmen is to be regarded from the public standpoint as excessive advertising and is purely acquisitive.

Whether the great marketing "chains" mean a real permanent economy, is still an open question. The competition which they have brought to bear upon the regular marketing agencies is having an important effect in forcing the adoption of more efficient methods by those agencies, as, for example, in causing retail grocery stores to offer a 5 per cent discount to customers who buy on a "cash and carry" basis, and in making the wholesaler more attentive to the interests of the regular retailer. Also the new organizations are to some extent educating consumers to use more economical buying methods. But when these results are accomplished, there will remain such questions as: Can remote corporate management be as efficient as close individual initiative in marketing? Are the wastes of competition not increased by duplication of stores and advertising? Is there not danger of monopoly? It remains to be seen how much of the progress of the new organizations is due to merely acquisitive power.

Analysis of certain concrete cases of integrated marketing.

What has been said thus far concerns conditions associated with integrated marketing, rather than the economy within the marketing process. Let us pass to the more direct argument which will take up economy within the marketing operation itself, aside from any question of the character of the commodity and manufacturing technique, etc. Let us take things as they are, without regard to cause, tendencies, or the question of what things ought to be.

Certain types of direct selling by manufacturers or growers may be briefly considered. For example, there are certain manu-

facturers who differ from the majority in not using the services of the broker and wholesaler, and in going direct to the retailer or even to the consumer in some cases. In the food distributing industry, one thinks of Heinz and the National Biscuit Company. Such concerns produce commodities of high specific value; they handle many lines, more or less related; and are heavy advertisers. Their motives are threefold: (1) They feel that they can push their particular trade-marked specialties better than middlemen who handle competing goods, and can do better work in the way of creating a demand. (2) They feel that the jobber or the retailer is too unwilling to handle, or at least to push, a complete line of their products. (3) They desire to prevent price-cutting. Closely related to all three of these points, and to the whole situation, is their desire to reap the full benefit of advertising. Quantity discounts and full-line-forcing tactics have been used. None of these motives or factors in the situation represents a benefit to the public. It is not probable that this class of direct distributors feel that they do their distributing any more cheaply than they could through the so-called regular channel. However that may be, the fact remains that they have to do the same work that the regular middle-man would do for them, and I am informed that all the products of the Heinz Company are handled through branch houses before getting to the retailer. Above all, their goods reach the consumer no cheaper than similar goods which flow through the regular channels.

A similar instance of direct marketing, but which has other elements is illustrated by the larger meat packers in their distribution of grocery products—now abandoned under the terms of a consent decree. Here, in addition to the usual methods of the specialty manufacturer, there was an exaggeration of the advertising element, and a large use of the discriminatory, "inside-price" methods, and of "full-line forcing." The "free deal" was abused and the appeal to the housewife to keep an "Oval Label Shelf," etc., was backed by pressure to induce the retailer to carry not only canned meats and lard, but also corn flakes and pancake flour of the same brand. Discriminations in transportation also entered into the situation; and there has been what may be called "unfair costing." Whenever a large line of goods is put out by a single concern, especially when there is an element of joint costs, there is likely to be a tendency to cut prices on some

particular product which it may be desired to push, and to justify the cut by charging a larger proportion of the total cost to some other product.

An examination of the packers' marketing organization will show that they duplicate, step by step, exactly the links in the chain which characterize the "regular" distributive system. The goods are shipped in carloads to branch houses, which correspond to the wholesalers' warehouses, and from there are distributed in less than carload lots to retailers in the same way that the wholesaler operates. In the place of the wholesaler himself, we have the branch-house manager, who directs the operation of a force of salesmen in the same way that the independent jobber does. It would seem, therefore, that so far as the actual cost of distribution is concerned, the two would be similar. It will be observed, however, that there are several points at which the packers' method tends to be less economical than the regular method. In the first place, there is the dependence upon the hired man, as over against the vital, personal interest of the owner. In the second place, there is the enormous overhead attendant upon the attempt to supervise efficiently a worldwide organization, not merely of selling, but of manufacturing as well. A part of this overhead consists of inflated advertising expenditure which is largely "institutional" in character and cannot be defended either on the ground of economy or of educating the public to the use of new products. It may be argued that the large scale on which the packer does business enables him to reduce his overhead expenses per unit, but this is getting the cart before the horse. The packer's overhead expense has to be justified first. It seems clear that the losses attending such integration in marketing must offset much of the undoubted economy in manufacturing, and it seems that the real reason for the integration lies in the lust for power and prestige coupled with larger *total* profits. That the public could get its meat as cheaply or cheaper with less integration is indicated by the fact that a number of smaller packers (including Cudahy), who do not practice much if any integration in marketing, thrive, and the further fact that the big packers have to maintain an elaborate system of branch house distribution.

This leads finally to the point that such organizations as the packers' illustrate the danger of monopoly which arises in connection with the tendency to centralized marketing.

Certain fruitgrowers' associations illustrate another type of integrated marketing, notably the California Fruit Growers' Exchange. It will be noted that these organizations are admitted to be chiefly and primarily for the benefit of the growers, and a study of the reasons for their existence indicates this to be true. Of course this does not mean that such organizations are undesirable; the only point is that they aim to secure for the growers a part of the profits which commission men and others had formerly secured. Moreover, it will be remembered that the California Fruit Growers' Exchange sells through the regular channel of jobber and retailer. The advantages claimed for the exchange are a better grading of the product, better information as to markets, and a lower freight charge obtained through the pooling of their product. These things are all desirable and beneficial to the grower; they are not harmful to the public. Indeed, there is probably a balance in favor of such organizations, although their net effect upon the price of the product may be questioned, and more than questioned in the case of such concerns as the "pools" of raisins, lima beans, and nuts which have shown monopolistic tendencies.

As to the mail-order house, I would simply call attention to the fact that it sells chiefly in small towns where the stores do not carry varied and up-to-date stocks. Here the mystery of the thing makes its strongest appeal and the methods of the local retailers are unsatisfactory. The transportation cost is such that the regular channel is not threatened seriously from this direction. In any case, these houses are forced to operate branch houses and break and reässemble orders, thus performing the wholesaler's and retailer's functions. According to the best information I have, the expenses of the mail-order house are approximately 22 per cent of the sales, which is very similar to the combined expenses of the wholesale and retail grocer (6.5 per cent plus 16 per cent, based on retail sales).

Direct buying by retailers' exchanges and chain stores is an important factor in the existing tendency toward integrated marketing of groceries. In this type of marketing organization, the functions of at least the wholesaler and the retailer are combined. The chief motive back of such organizations is either the desire to secure inside prices on quantity purchases or to push some advertised branded commodity. Both motives are connected with

acquisitive gain for some particular business concern, rather than with a public benefit. *Other factors in the situation are economy in advertising and in credits and collections, and the adoption of* better selling methods. It is undoubtedly true that the chain store systems, directed from above by able organizations, are highly efficient in handling particular business problems, notably those of credits and salesmanship. Nevertheless, it must be remembered that such organizations merely take over the jobber's job: they do not get rid of it. They combine the retailer's troubles with the costs and risks of the wholesaler. Furthermore, they have to place dependence upon numerous hired managers, and it may be doubted if they can overcome this disadvantage, no matter how cleverly systems of profit-sharing, bonuses, etc., are utilized. Again, regarded as retailers, they generally have no choice in the line of commodities sold, and in confining themselves to pushing any given lines, they lose the advantage of bargaining among a wide range of producers. They are likely to get into a rut. Finally, as wholesalers their field may be so limited as to prevent important economies, this being especially true of coöperative buying organizations among retailers. The greatest success among chain-store systems may be anticipated in the case of those which deal in branded, advertised goods, as shoes, cigars, etc. They will undoubtedly force retailers to adopt more economical methods, and perhaps bring about an extension of the so-called "four-square plan" with its differentiation in prices between cash and credit business.

No normal tendency to large scale marketing.

The forces thus far described indicate that in large part the various phases of integrated marketing and direct selling of food products, are not of benefit to the public, and lead to waste and disorganization in marketing machinery. Incidentally the analysis has indicated that many of the forces making for integration and large scale in marketing are not beneficial. The question, however, remains: is there any positive force in the economics of marketing which makes for large-scale organization? We know that in many lines of manufacturing, there are economies to be gained by producing on a larger scale, and if integration is a means of attaining large-scale production it is therefore to that extent desirable. Insofar as most food products are

concerned, such does not appear to be the case. The food products referred to are such as are handled by wholesale grocers, namely those that are not highly perishable and can be transported and stored. With such products the merely mercantile problems of buying, carrying, and selling are decisive. When, however, the technique of the physical problems of handling, reworking, or delivery become decisive, a different answer may be made. For example, in the case of milk it appears that processing, manufacture, and delivery are so important that the large-scale operations are more economical, and perhaps the same may be said of the wholesaling of fresh meats.

In the first place, in marketing most food products, only a small amount of fixed capital is required. The wholesale grocer, or any other distributor who does the work of a wholesale grocer, only requires a warehouse, office furniture and fixtures, and a few trucks, to perform his function. Not only is the expense of these items of investment relatively small as compared with sales but they do not remain "fixed." They vary with the volume of business done. The little wholesale grocer requires only a little warehouse and a single truck. If he grows bigger, he rents a larger warehouse and buys additional trucks.

It follows that the item of "fixed charges" is relatively small in the marketing of food products. Bonds are rarely, if ever issued; the chief item of interest is that paid on loans from banks, which vary with the amount of business done. Much the same may be said of taxes. Advertising is almost negligible.

Management is the dominating factor in the wholesaler's economy. Close attention to numerous details is required. There is little buying of large quantities to be held for speculative gains. The volume of business which will take the entire attention of an ordinary manager is accordingly not one which can be compared with the large-scale operations of a railway system or a steel company. To be sure, an efficient man can handle a bigger wholesale grocery business than can an inefficient one; but the limits are much more narrow than in manufacturing and transportation, and the more efficient man demands a higher salary, *which is a very important percentage of the total expenses.*

It seems that the small dealer has all the advantages as to securing the same rate of profit that the large one has. Ordinarily, in buying by the carload, the jobbers secure as low a price as can

be obtained, barring discrimination. In other words, the carload is the unit, and the little jobber who buys one carload, can buy as cheaply as the big one who buys ten. One chief factor to be considered is the salesman. The operations of the salesman in any given marketing territory appear to be entirely independent of the size of the firm for which he works, or the total volume of sales of that firm. The only doubt here lies in the question as to how many salesmen can be most economically utilized by the given manager. It would seem theoretically that a house which employed a skilled manager, whose time would be entirely taken up with more general questions of policy, and who directed the operations of a group of salesmen, would be more efficient in the sense of having a higher rate of profit, than a very small one, whose manager had to give a part of his time to calling on the trade. Such a house would be very small—probably with annual sales of $500,000 or less. It is true that such extremely small houses thrive, and sometimes grow larger, but this appears to be due generally to the expenditure of an extraordinary amount of effort by the proprietor.

The conclusion is that, in the grocery business, within a very wide range, a similar rate of expense and similar rate of profit are secured by both big and little concerns. It is to be emphasized that what is referred to here is the *rate* of profit. Of course, up to a certain point, the total profit increases with the size of the concern, but, while that may make the little concern desire to become big, it does not have anything to do with the question of efficiency or with the question of prices to the public.

If one wants concrete evidence of the truth of the foregoing reasoning, one only has to look around to see it on all sides. Perhaps 50 per cent of the meat packers' business is marketing, and here we find that the relatively small and simple organization appears to make as good profits as the large and complex one. Also, within the grocery business, it may easily be proved that the relatively small establishments make as high a rate of profit as the larger ones.

Here again, therefore, we arrive at the conclusion that such tendency toward centralized and large-scale marketing as now exists, must be based upon forces and conditions which arise out of a struggle for increased volume of sales among manufacturers, and does not represent increased economy or profit to the public.

General conclusion.

The present disturbed condition of the marketing world is the result of a challenge to the old established methods, issued by new methods born of recent and to some extent temporary conditions. These conditions are the growth of integration and combinations among manufacturers, and the large profits accruing to marketing agencies on account of the rise in prices caused by inflation and scarcity. Easy credit has played a part. The result is a struggle for survival among numerous agencies.

It may be concluded from the foregoing analysis (1) that no prima facie case for integration in marketing exists and (2) that the marketing of such products as groceries is not subject to the law of increasing returns.

In the foregoing discussion, the aim has been so to analyze the forces now tending toward integration in marketing food products that a fundamental appraisal may be made. Perhaps as fundamental as any is the conclusion that most of the economic arguments in favor of integration in this field cannot be generalized. For example, the advantages claimed by those manufacturers who go direct to the retail trade, if logically carried out, would require going to the consumer; but for every manufacturer to go direct to consumers would be extremely wasteful, if not impossible (unless we assume monopoly and division of territory). From the social point of view, the various alleged advantages cancel out. Advertising, if excessive, is like the matter of armaments among nations: if every one were to engage in the mad struggle to cover a greater area of paper with pictures and eulogiums of his product we would be left just about where we were when the struggle began, except that the consumer would have paid the bill. If every one gets an "inside price," no one has an advantage in getting it.

While most of the benefits claimed for it are acquisitive, it seems fair to conclude that within limits integration in the marketing of certain commodities may also be socially desirable. Such commodities appear to be those which have one or more of these characteristics: (1) heavy, but not excessive, advertising expense, (2) concentrated production or consumption, (3) requiring special "service," (4) aggregated in interrelated groups, (5) subject to highly standardized marketing technique. When a product is a "specialty," and advertising is the controlling factor, the normal tendency is toward integrated marketing, though not necessarily

on a large scale. The question of public benefit is here closely connected with the question whether the advertising is excessive. If its expense is in excess of the utility added to the product, it is to be condemned, along with the centralization in marketing which results. When these or similar characteristics are not found it is doubtful if such integration in marketing as exists is socially desirable.

A considerable part of the present trend toward integration in marketing food products from manufacturer to consumer is caused by the use of unfair or uneconomic methods, which have the immediate effect of increasing the wastes of competition and of tending to build up monopoly.

As none of the important economies which have caused the development of large-scale production in manufacturing appear to apply with any considerable force to wholesale marketing of such products as groceries, it may be concluded that in this case there is no normal tendency toward large-scale marketing, so far as economic forces are concerned. An obvious corollary is that those cases of large-scale dealing at wholesale in groceries which now exist are not based upon economic efficiency.

Lewis H. Haney.

Washington, D. C.

INTEREST, RENT, AND NORMAL RETURN ON CAPITAL INVESTMENT IN THEIR RELATION TO MANUFACTURING COSTS

Is interest a manufacturing cost? To this inadequately worded question professional accountants and economists who are interested in accounting have in recent years given much attention. Speakers at conventions of scientists, professional accountants contributing to their journals, candidates for accountancy recognition in their theses, and university instructors in accounting have all interested themselves in the controversy and have expressed their views thereon. To the American Institute of Accountants the issues in dispute have seemed sufficiently important to warrant investigation by a special committee, which has recently issued its decision.[1]

For the professional accountant the question for debate is somewhat as follows: Is it proper to charge on the books of a concern as an element in the manufacturing cost of its product or products that which may be considered to be the normal return on the investment of capital involved? To some extent, this is a technical matter. But its solution is not likely to be reached unless there is a clear understanding of economic relationships. The relationships primarily involved are those between interest (contractual payments made in consideration of money loans), rent (contractual payments made in consideration of borrowed durable goods), and anticipated non-contractual return on invested capital equaling in amount the usual return on passive (non-risk-taking) investment.

The first task undertaken here, therefore, is to show by means of a specific illustration just what the proposal to charge the normal investment return as a manufacturing cost means in the case of an enterprise in which there is borrowing neither of money nor of goods; and to demonstrate, by an extension of the illustration, that the introduction of the borrowing feature, if handled by the accountant with careful discrimination, need have no complicating effect upon the nature of the problem. Then attention is given to the objects which are sought to be attained by the accounting procedure in dispute, and to the efficiency of this procedure for the attainment of the desired results.

[1] See the bibliographical list at the end of this article.

Let us study the case of a manufacturing company (*A*) organized with a capital stock (common) of $100,000, issued at par. No bonds have been issued. Previous to the fiscal period here involved there has been no accumulation of surplus or other undivided profits. All the fixed assets employed in the business, valued at $20,000, are owned, not rented, and the company's accountant follows the practice of charging depreciation thereon at the rate of $1,000 per annum. Let it be further assumed that company *A* manufactures only one product, which is here designated as *X*, and that in the year in question 1,000 units of *X* were produced and sold. In the statement of operations here presented (Table 1) no attempt has been made to introduce the 'interest' factor in dispute. There is recognized the customary division of "orthodox" or generally accepted costs into "prime cost" and "indirect charges." Of the indirect expenses one item, depreciation, is specifically shown for a reason presently to appear. Under the simple conditions assumed, it is quite clear, of course, that company *A* has no difficult cost accounting problem and that the usefulness of introducing "interest" charges in modification of the cost figures presented is reduced to a minimum. Were such "costs" to be introduced, however, the bookkeeping procedure would be that of charging to different departments or processes with amounts representing a normal return on the "capital" used therein. For each such charge of nominal or "opportunity" cost there would be a credit representing hoped-for income. Costs would be "padded," and so would income.

Company *B*, let us say, was organized with a capital stock (common) of $80,000 sold at par. Bonds were issued having a par value of $20,000, paying interest at the rate of 5 per cent per annum. These were marketed at par and the annual charge for interest thereon is $1,000. With respect to previous accumulations of surplus and of undivided profits, ownership of fixed assets, and the kind and quantity of product manufactured and sold during the year, the conditions are the same as those described for company *A*. Furthermore, and it is important that this hypothesis be fully grasped, the technical and economic conditions of manufacture and sale are identical with those of company *A*. The one plant duplicates the other. The labor market is the same for both. The market for materials and supplies is the same. Managerial ability in the two plants is evenly matched and the methods of management are identical. There is no dif-

ference between the balance sheets of the two companies other than that which pertains to the distribution of gains between stockholders and bondholders. By virtue of the conditions laid down, the manufacturing costs of company *B* are identical with those of company *A;* and the books and statements should show that fact. The mere payment of bond charges has in no way affected the costs of manufacture. And the insertion in the list of "other indirect expenses" of contractual interest on borrowed capital would invalidate the resulting manufacturing cost figures for purposes of comparison with other companies.

In the accompanying table the author has inserted the bond charges in the general group of items labeled "non-manufacturing costs." It is possible, logically, to go even further than this

TABLE 1

	Company *A*		Company *B*		Compan	
1. Sales		$150,000		$150,000		$1
2. Manufacturing costs						
3. Prime cost						
4. Direct material	$45,000		$45,000		$45,000	
5. Direct labor	32,000		32,000		32,000	
6. Indirect charges						
7. Indirect material	12,000		12,000		12,000	
8. Indirect labor	15,000		15,000		15,000	
9. Indirect expenses						
10. Depreciation	1,000		1,000		1,000	
11. Other	5,000		5,000		5,000	
12. Total manufacturing costs		110,000		110,000		1
13. Gross manufacturing profit		40,000		40,000		
14. Non-manufacturing costs						
15. Selling costs	25,000		25,000		25,000	
16. Fixed charges						
17. Rentals (net)	——		——		1,000	
18. Bond charges	——		1,000		——	
19. Total non-manufacturing costs		25,000		26,000		
20. Income for proprietary distribution		15,000		14,000		
21. Dividends (at 8 per cent)	8,000		6,400		6,400	
22. Surplus	5,000		5,000		5,000	
23. Other undivided profits	2,000		2,600		2,600	
		15,000		14,000		1

in the physical separation of these charges from the manufacturing section of the statement, placing them in the section devoted to the distribution of income. This is a matter of preference. What is important here is that with the true manufacturing costs unadulterated by the introduction of the contractual interest item we may consider without confusion, regarding the two companies,

the real question at issue—the propriety and expediency of introducing as a cost in the manufacturing section normal or anticipated return on invested capital.

Let us consider one more case, that of company *C*, in which there are no bondholders. There is $80,000 capital stock (common). But instead of owning the $20,000 worth of fixed assets on which the managers of company *A* computed an annual depreciation charge of $1,000, this concern enters into a renting contract, agreeing to pay a gross rental of $2,000 per annum to the owners of this needed equipment. It is made a condition of the lease that the lessee is to make all ordinary repairs. Thus, reasons the accountant for company *C*, if there is a division of the $2,000 gross rental which should be made by the lessor, a corresponding division should be made by the lessee; and under "indirect expenses of manufacture" he makes a charge of $1,000 for depreciation, devising such an account title as seems to him accurately descriptive of the items contained therein, and then charges the net rent of $1,000 either as a non-manufacturing cost (as in the table) or as a deduction from disposable income.[2] By this elimination of the net contractual rent item from the manufacturing section he has done that which should be the object of his accounting. He has truthfully presented the legitimate costs of manufacturing operations, which by hypothesis are the same as for companies *A* and *B*, since all technical and commercial conditions are the same. If in these three establishments technical and commercial (not financial) conditions should become altered, the alterations affecting the three companies in different directions and degrees, the cost accounts, kept as indicated, would make possible an accurate comparison of the commonly accepted costs. Contractual rent, like contractual interest, is not an item of manufacturing "overhead," and by the procedure above described has been so recorded. Yet it is possible to find eminent authority for the inclusion among the "indirect expenses" of

[2] The actual formal procedure might well be a little more elaborate, first the setting up of a charge of $2,000 in an account called "rental of equipment," and then the crediting of this account $1,000, the contra debit of which would be to the appropriate manufacturing cost account.

"Rent may include something more than interest, in which case a part thereof may properly be included in cost. . . ." A. L. Dickinson, "The Fallacy of Including Interest and Rent as Part of Manufacturing Cost," *Journal of Accountancy*, vol. 16, p. 95, note.

manufacture of both contractual interest and contractual rent.[8]

Furthermore, to introduce such contractual interest and rent charges into manufacturing records is to confuse grossly the debate regarding the propriety of charging as a cost normal non-contractual return on invested capital. If some of the capital in an enterprise has been borrowed and the contractual interest charges have been admitted to the manufacturing costs, the case for the use of normal non-contractual return figures is prejudiced. No one would have the hardihood deliberately to propose including in manufacturing costs both contractual and non-contractual "interest" items on the same capital. Likewise would it be with borrowed fixed assets (such assets sometimes being erroneously confused by economists and accountants with capital itself), and the contractual rent paid therefor. If this rent is distributed as manufacturing overhead, there can be no further claim for "opportunity cost" arising from the clothing of capital in these forms. In both of these cases, normal return on passive investment, if charged as an "opportunity cost" of manufacture, must logically be computed on the base of the net proprietorship, as shown in the balance sheet. Nay, rather, if contractual interest and contractual rent have already been charged as manufacturing costs, the strict logic of the situation would require the similar use of normal non-contractual return on the purely proprietary investment. The wisdom or unwisdom of treating these returns as costs of manufacture is no longer open to debate. The accounting procedure which leaves the question for debate in the clearest, simplest, and the least prejudiced form is, it seems to the writer, that which keeps the contractual interest and rent charges entirely separate from the manufacturing costs; then if the cost accountant, with a full knowledge of the "opportunity cost" nature of his entries, sees fit to introduce into the cost records figures to cover the normally expected income with which to reimburse the lenders of funds and the lenders of equipment, and to reward to a moderate degree the active risk takers, there will be one common method of procedure for all conditions of ownership. To refer to the illustrative table, companies *A*, *B*, and *C*, having been treated comparably as to manufacturing costs up to the point when the new procedure is decided upon, will still be kept on the same comparable bases. Their statements of operation will be uniformly modi-

[8] Nicholson and Rohrbach, *Cost Accounting*, pp. 17, 22, 190-192.

fied by the charges of "opportunity cost" and the credits of anticipated income.

Let it be assumed then in the pages that follow that contractual interest and rent charges are to be handled as either non-manufacturing costs or as disposition of income items. The question for discussion then stands clearly forth: "Is it, or is it not, proper and expedient to charge against the product of an industry as a cost the amount of normally anticipated return on the capital used in its production?"

If there is one condition which more than any other has given rise to the propcsal to introduce anticipated income or "opportunity cost" into the overhead items in manufacturing cost accounts it is the complexity of modern industry, especially with respect to the division of labor and the diversification of products within establishments. Active capitalists invest their funds in a given enterprise, clothing their capital in assets of different types. Out of the industrial processes emerge products for sale—products of many kinds—in the turning out of which the investors' capital has been distributed as between departments and processes in ever changing proportions. Some of the capital is clothed more or less permanently in so-called fixed assets—as land, buildings, and machinery. Other portions are clothed in less permanent asset forms —as raw materials, tools, and supplies. Still other portions are clad in the most transient of asset forms, cash, employed in a series of frequent operations such as the payment of wages, of daily incurred expenses of other types, in the purchase of current assets and the receipt of cash from sales. In the selling prices of all the products there is included, if the enterprise is successful, first, reimbursement for all the actual costs incurred in production—salaries and wages, materials and supplies consumed, insurance against losses from various industrial hazards, *et cetera;* and, second, rewards for the investors, both those who contract for small fixed incomes and those whose share is non-contractual or residual. From the standpoint of the last-named class of investors the larger the margin of gross profit the better; and, as a means to the securing of the maximum possible rewards for the performance of the risk-taking function, it becomes important to make each unit of each product sold yield a share of the whole profit in keeping with the proportion between the capital invested in assets employed in its production, and the total capital invested in the enterprise.

Where there is industrial monopoly the problem indicated in the last sentence is that of determining a price policy. Where monopoly does not exist and *ipso facto there does not reside in the managers of an individual enterprise unrestricted power to* manipulate prices, the problem is rather that of determining the direction of productive activity. But of this, more later. Let it be temporarily assumed, purely for the sake of argument, that price determination by the entrepreneur is possible and that it is desired to use the cost accounts of the enterprise to show for each product the price which will yield a given return on the capital actually employed.

For purposes of illustration let us assume for company *D* the conditions of operation presented in part in Table 2. This corpo-

TABLE 2

	Company *D*					
	Commodity *W*		Commodity *Y*		Commodity *Z*	
1. Sales		$75,000		$50,000		$25,000
2. Manufacturing costs						
3. Prime cost						
4. Direct material	$20,000		$12,000		$5,000	
5. Direct labor	15,000		8,000		3,000	
6. Indirect charges						
7. Indirect material	8,000		10,000		3,000	
8. Indirect labor	10,000		7,900		2,100	
9. Indirect expenses						
10. Depreciation[1]	600		300		100	
11. Other	1,400		1,800		1,800	
12. Total manufacturing costs		55,000		40,000		15,000
13. Gross manufacturing profit		20,000		10,000		10,000
14. Non-manufacturing costs						
15. Selling costs	7,500		5,000		2,500	
16. Fixed charges						
17. Rentals (net)[1]	600		300		100	
18. Bond charges[2]	500		360		140	
19. Total non-manufacturing costs		8,600		5,660		2,740
20. Income for proprietary distribution						
a. By commodities		11,400		4,340		7,260
b. Total				13,000		
21. Dividends (at 8 per cent)			4,800			
22. Surplus			5,000			
23. Other undivided profits			3,200	13,000		

[1] Distributed between *W*, *Y*, and *Z* in the ratio of the distribution of the borrowed fixed assets, 60 per cent to *W*, 30 per cent to *Y*, and 10 per cent to *Z*.

[2] Distributed between *W*, *Y*, and *Z* in the approximate ratio of the distribution of the current assets, 50 per cent to *W*, 36 per cent to *Y*, and 14 per cent to *Z*.

ration was organized with a capital stock (common) of $60,000 marketed at par. Additional capital was secured by a bond issue of $20,000 bearing interest at the rate of 5 per cent per annum, the entire issue having been marketed at par so that the annual fixed charge on this account is $1,000. Also, the incorporators secured the use of all the fixed assets employed in the manufacturing processes (land, buildings, and machinery) and valued at $20,000, under the renting contract rather than by outright purchase, the terms of the lease being identical with those described in the case of company *C*. The accountant for company *D* analyzes the terms of the lease as in the case of company *C*, charging $1,000 of the gross rental as a manufacturing cost comparable to the depreciation of the equipment, and treats the remaining $1,000 as net rental in the nature of a fixed charge upon manufacturing profit.

Let company *D* produce and sell 1,000 units each of commodities *W*, *Y*, and *Z*, whose sales, "orthodox" manufacturing costs, and gross manufacturing profits are indicated in the upper portion of Table 2. Note in particular that, assuming the same rate of depreciation on all the fixed manufacturing assets, regardless of their assignment to one or another of the three products, 60 per cent of these assets are employed in manufacturing *W*, 30 per cent in manufacturing *Y*, and 10 per cent in manufacturing *Z*. The manufacturing costs per unit of *W*, *Y*, and *Z* are respectively $55, $40, and $15. Let it be further assumed that the 5 per cent interest charge on the borrowed capital represented by the outstanding bonds, and the 5 per cent net rental estimated to reach the lessor of the fixed assets under the renting contract are representative of the normal return on the passive investment of capital. That is, let it be assumed, purely for the sake of argument, without debating the correctness of the rate per cent selected, that the stockholders in this enterprise are reasonably sure that their funds invested elsewhere passively would bring them a return of 5 per cent. They therefore wish to safeguard themselves in a price policy which will give them this minimum return upon their investment.

Further, let it be considered that the selling mechanism of this establishment is exceedingly simple, consisting of some arrangement of a commission nature which takes from the selling price of each unit of output 10 per cent thereof. So that for the purpose of this manufacturing cost illustration it will be assumed

that no appreciable amount of the capital invested in the enterprise is to be regarded by the accountant as specifically and permanently allocated to the performance of the selling function; *and that the process of "marking up" manufacturing costs to* cover selling expenses is uniform for all three commodities. Whatever is the investment in the enterprise on which it is hoped to earn a normal return is all to be regarded as capital devoted to manufacture.

Now if company *D* is to be reasonably successful, is it not clear that the accounting or other device employed as a means to the desired end must include in its computations all the capital invested in the enterprise, not simply a part thereof? It is required for the attainment of even moderate success, that the selling prices of the units of factory product shall in the aggregate equal the commonly accepted manufacturing costs, plus selling costs, plus 5 per cent net rental of the borrowed fixed assets, plus 5 per cent interest on the bonds outstanding, plus 5 per cent on the investment of the stockholders. If the capital investment of any one of the groups of investors be omitted from the calculations made in the determination of price or production policies, income will, so far as the policies adopted are effective, be deficient. If, to refer to company *D*, the $60,000 capital investment of the stockholders be ignored in the determination of business policies, the income of the stockholders is likely to be nil. If the capital investment of the bondholders is ignored, the income distributed to these creditors will, *ceteris paribus*, be unaffected; but earnings available for dividends will be diminished by one third. Similar results would attend the exclusion from consideration of the equity of the lessor of the fixed assets. It would be difficult to conceive of an accountant who, in approaching a problem of business policy from the point of view of the equity side of the balance sheet and with income requirements in view as the major feature of his problem, would deliberately ignore any one equity representing the permanent investment of capital. The capital, the income upon which is now in debate as a legitimate manufacturing cost, is all the capital in the enterprise, not a part thereof.

And yet it is surprising to find, among those who are foremost in the advocacy of introducing "interest" cost charges in the books of account, a shifting of the point of view from the equity side of the balance sheet to the asset side, and, possibly as a result

of this shifting, a clearly defined and unmistakable refusal to admit that any capital other than that clothed in fixed assets is involved. The senior author of a recent and able text in cost accounting[4] says, in explanation of his own position, that he has

> Never advocated the charging of interest on the capital invested as a whole, but only on the permanent or fixed assets used in manufacturing; that is, land, buildings, machinery, and equipment. He has never advocated interest on inventories of raw material and supplies, accounts receivable outstanding, or any other form of floating capital investment. Ignoring all economic arguments in connection with this subject, and confining it strictly to its relation to the fixing of a selling price, the writer is firmly of the opinion that it is necessary to consider interest in this connection in order to determine what would be a fair profit in a given case.[5]

It is hard to understand such a position unless a partial explanation be found in the first participial phrase of the last sentence of the quotation, "ignoring all economic arguments." The same writer in a paragraph preceding the paragraph just quoted, says:[6]

> As it is just as necessary to pay for buildings, land, and machinery as it is to pay workmen for manufacturing a product, interest on the capital investment should be considered in ascertaining costs, especially where the value of the investment required for the manufacture of some articles is greater or less than that required for the manufacture of other articles.

Why not change the order of the words and say—"as it is just as necessary to pay workmen for manufacturing a product as it is to pay for buildings, land, and machinery . . ." etc.? For while machine production and the extensive use of fixed assets are supposed to be typical of modern industrial activity, not all establishments are so organized. In the case of company *D* now before us, there is by hypothesis a relatively light investment of capital in these fixed asset forms, and 80 per cent of the investment is in "current," or "circulating," or "floating" form. Should not the price policy of the company aim to produce the desired 5 per cent return on this part of the investment also?

What, from a purely theoretical standpoint, is the difficulty involved in the proposal[7] to compute "opportunity costs" on the

[4] Nicholson and Rohrbach, *Cost Accounting.*

[5] *Op. cit.,* pp. 139, 140.

[6] *Ibid.,* p. 138.

[7] Mr. Nicholson is by no means alone in his contention. Professor W. M. Cole, of Harvard University, in his paper before the American Economic

basis of fixed assets alone? Simply this, in the writer's view, that *there is involved here an unnecessary and harmful confusion of the two sides of the balance sheet. Buildings, land, and machinery* are assets. Capital is clothed in these forms. But not *all capital* is so clothed. Economists may be in dispute as to the definition of capital. That dispute is not a part of the subject of this article except insofar as the following principle obtains: that the word capital may not safely be used in a given discussion to refer to both sides of the balance sheet at the convenience of the writer or speaker. If capital means "proprietorship" or "net worth" or "equities," it cannot mean at the same time "land," "buildings," "machinery," or other fixed assets. If opportunity cost charges are to be introduced in the ledger as a means to the production of satisfactory returns to the holders of equities in a business, and it is desired to distribute such cost figures among several products, it may be necessary to formulate rules of procedure in terms of assets used in production. But these assets are all the assets, not merely a part of them.

Let us return to the consideration of company *D* with its investors' equities of $100,000 on which it is required to earn a minimum return of $5,000. Would it not be absurd to require that the minimum price allowed the selling department on commodity *W* be fixed at a figure which, when multiplied by 1,000 (the number of units anticipated to be manufactured and sold in the fiscal period) would produce $55,000 (the "orthodox" manufacturing costs), plus $7,500 (the assumed selling costs), plus $3,000 (60 per cent of the hoped for net income), simply because 60 per cent of the fixed manufacturing assets are employed in manufacturing commodity *W*? The price per unit by such a computation would be $65,500 divided by 1,000, or $65.50. Similarly, to compute minimum prices on commodities *Y* and *Z* would give figures of $46.50 and $18. But the $20,000 invested in fixed assets is but 20 per cent of the whole investment. It by no means follows that the remaining assets used in manufacturing have been distributed among these products in the same proportions as have the fixed assets. In fact, examination of Table 2 shows the contrary to have been the case.

Association in December, 1910, and in his article in the *Journal of Accountancy* in 1913 (see bibliographical note appended) has in mind the fixed-asset concept of capital, although it is not clear that he has consistently employed the word capital with this meaning.

Manufacturing outlays other than that involved in the depreciation of fixed assets have been for *W*, *Y*, and *Z* collectively $54,400, $39,700, and $14,900. If (to simplify the illustration) we assume now steady production of all three commodities throughout the fiscal year, no differences between the production of *W*, *Y*, and *Z*, with respect to the regularity in point of time of expenditures of cash and disappearance of other current assets, then commodity *W* may be considered to have had used in its manufacture approximately 50 per cent of the current assets employed in the enterprise. Commodity *Y* may be considered to have had used in its production approximately 36 per cent of such assets, and commodity *Z* approximately 14 per cent. Table 3 exhibits the salient facts relating to the use of the different types of assets.

TABLE 3

	Total	*W*		*Y*		*Z*	
Fixed assets...	$20,000	$12,000	60%	$6,000	30%	$2,000	10%
Current assets.	80,000	40,000	50	28,800	36	11,200	14
	100,000	52,000	52	34,800	34.8	13,200	13.2

On the basis of a 5 per cent return on all the capital invested, in whatever asset forms it may be clothed, *W* should sell for $65.10,[8] *Y* for $46.74, and *Z* for $18.16.

By this method of calculation *Y* and *Z* should contribute $0.24 and $0.16 respectively per unit more to profits than under the fixed asset method of distributing the "interest" overhead. *W* could profitably be sold for $0.40 less per unit and a reduction of price quotation might expand the market and permit of a greater volume of profitable trade. From the point of view of "opportunity cost," the fixed asset method of "interest" distribution, if made the basis for a price policy, results in the employment of $48,000 of capital at a rate of return less than the assumed normal return on passive, non-risk-taking investment. Such an accounting procedure could hardly be considered truly profitable.

It appears then, that, when the economic principles involved in the problem are clearly understood and made the basis of any

[8] That is, 1,000 units of *W* at $65.10 = $65,100, which equals $55,000 (the gross manufacturing costs) plus $7,500 (the selling costs) plus $2,600 (5 per cent of the $52,000 of all assets used for one fiscal year in producing *W*).

concrete plan for the introduction of "interest cost" charges into the books of account, the question of adopting such a plan becomes *one of practical* expediency. The important question then is, "*Will this particular accounting procedure attain the desired* goal at the minimum cost? Although a satisfactory answer can be secured only by reference to the circumstances of each specific case, one or two considerations bearing upon this practical problem may profitably be suggested.

In the case of company *D* the computation of actual results attained in the production and marketing of products, *W*, *Y*, and *Z* was a relatively simple matter, especially, as critics have already no doubt noted, numerous assumptions were made to attain this simplicity. Of course, with every deviation from these assumed conditions, the problem of ascertaining the real returns to capital from the handling of different classes of products becomes more complex and therefore more difficult. Irregularity of operation of the plant as between departments, irregularities in the occurrence of wage, repair, and other expense items must be taken account of in determining the actual investment of capital to be assigned to the several factory products. But is not such a determination *post facto* much more simple, and therefore much more likely to be accurate, than a calculation of current "opportunity cost" charges against departments and processes, when the charging of such items must be made not with reference to a complete record of actual events pertaining to the whole period involved, but on the basis of incomplete current operating figures and estimates? Professional accountants are not agreed among themselves as to the proper formulas for the distribution of commonly accepted overhead costs. Would not the construction of a valid formula for distributing "opportunity cost" overhead be even more difficult?

To return to company *D*: the data of Table 2 show that in the fiscal year under consideration the 1,000 units of *W* produced were sold for $75,000, or $75 per unit. This figure, minus the commonly accepted manufacturing costs ($55,000) and the selling costs ($7,500), gives a profit from all operations affecting *W* of $12,500, available for distribution to all three classes of investors. If then there be subtracted the net rental on the 60 per cent of all the fixed assets of the concern which were used in producing *W* ($600); and if, also, there be subtracted $500, or 50 per cent of the bond interest charges (since the capital se-

cured by the bond issue has gone in with the other circulating capital and of the entire circulating capital 50 per cent was used in producing *W*), there remains $11,400 from handling commodity *W* for purely proprietary distribution. This on an actual total capital investment in the production of *W* of $52,000 for one year gives a return of 21.99+ per cent. Making similar calculations with respect to the actual conditions of production and sale of the two remaining commodities we find that the capital invested in *Y* has secured a return of 12.4+ per cent, and that invested in *Z*, 55 per cent. Here then is an important fact, ascertained by examination of the records of accomplishment. Only slightly more than 13 per cent of the total investment of capital has been applied in a field of production over twice as profitable as either of the other two fields of activity, and over one third of the capital (that invested in the production of *Y*) has yielded a return equal to less than one fourth of the return secured from commodity *Z*. Surely such facts, when known, can be used to advantage in determining a policy of production. It seems to the writer that Mr. A. L. Dickinson was right when he said,[9] . . . "The correct way is not to charge into the cost an arbitrary rate of interest which means little or nothing, but to compare the margin between the sale and cost price; or in other words, the return upon each product, with the capital invested in order to secure that return."

In another place in the present paper[10] it has been suggested that only under conditions of monopoly would the chief interest in detailed cost figures reside in their relation to the determination of prices to be quoted on goods already produced. But industrial monopoly is not as yet co-extensive with the field of industrial activity. If, now, it be assumed that competition is operative in the industry of which company *D* is a member, then company *D* is interested more in the question of what to produce, *W*, *Y*, or *Z*, or in what relative quantities to produce all three than in the determination of a theoretical price which it cannot force the market to accept. It is almost axiomatic that the prospective buyer or seller in a competitive market cannot control prices. If he does not wish to trade at existing price levels, he may withdraw, but he himself has no guarantee that he will benefit

[9] Dickinson, A. L., "The Fallacy of Including Interest and Rent as Part of Manufacturing Cost," *Journal of Accountancy*, vol. 16, p. 96 (Aug., 1913).

[10] *Supra*, p. 554-555.

by the price movement which follows his withdrawal. In the case of company *D*, then, it behooves the management to modify their productive activity, so far as the limitations of technical conditions permit, to bring more nearly to equality the returns on capital clothed in different assets or used in producing different commodities.

One more case at least should be considered; namely, that in which examination of the accounts shows that one of several factory products is yielding on the capital invested in its manufacture less than the commonly expected return on capital passively invested. If such a case were to occur, is it not clear that, subject to technical limitations, such as the possession of specialized equipment, there would be curtailment of output of that article, pending the restoration of more favorable market conditions? Insofar as the practice of introducing into the books of account during the fiscal period figures calculating the minimum price that will yield this "interest" return is concerned, such a procedure cannot at all affect the market. If, after the calculation is made and the goods are ready for sale, there is a slump in the market, the producer may take the existing price or leave it. His cost calculations cannot save him, except so far as they save him from selling before the market price gets back to a profitable basis. Conversely, it would be difficult in these post-war times to imagine a manufacturer voluntarily declining to follow the market upward on the ground that his "opportunity cost" had been calculated at a lower figure than possible profits.

In either case, that of the manufacturer who has estimated prices on the basis of reasonable "opportunity cost" and then finds the market price unfavorable by comparison, or that of the manufacturer in the opposite situation, it is not likely that an elaborate "interest" overhead computation, even though it be an accurate one, will be regarded as a very profitable exhibition of mental gymnastics on the part of the accounting department. But if the manufacturer thinks otherwise, let him make sure that this department is using, not abusing, economic principles.

To summarize, there are four major principles which should be recognized in the consideration of any plan for entering "interest cost" charges in manufacturing accounts. First, contractual payments of interest and of rent are not *per se* manufacturing costs. They may be regarded as non-manufacturing cost items or as charges against income, according to the point of view of the accountant in handling a particular situation.[11]

Second, for the accountant to insert these items of contractual payment in the manufacturing section of a cost analysis, in contravention of the writer's first proposition, is to prejudice the debate regarding the propriety of calculating as a manufacturing cost the so-called "opportunity cost" of what capital passively invested usually earns. Even the Harvard Bureau of Business Research contends that contractual and non-contractual interest items must be charged in the same section of the statement of operations, if there is to be true comparability of costs as between different concerns.[12]

> It is to be noted . . . that interest on capital owned and interest on capital borrowed are charged in the same way. This is necessary in any uniform accounting system which is to be used as a basis for collecting figures from numerous businesses. If one merchant is operating entirely on his own capital and another borrows half the capital employed in his business, the relative interest charges of the two businesses can obviously be compared only by determining the total interest charge for each business.

Third, if the accounting records of an enterprise are to be used to determine either a price policy or a policy of production, ignoring for the present the exact methods of such use, any computations of returns, either anticipated or realized, must take as their basis the total capital investment in the enterprise, not merely that part of the capital which, by accident or otherwise, is clothed in particular forms, as land, buildings, machinery, and other equipment.

Fourth, whether it is wise in any given instance to introduce "opportunity cost" charges into the manufacturing accounts is a question to be answered chiefly that on grounds of expediency and efficiency (assuming, of course, the three preceding principles are

11 *Cf.*, John Bauer, "Rents in Public Utility Accounting," *Journal of Accountancy*, vol. 20, pp. 21-27 (July 1915). "If its [*i.e.*, the management's] purpose is to show the cost to the property as a whole, then neither rent nor interest should be included in factory costs; if the view is restricted to the corporate investment, then rent, but not interest, should be included; if the stockholders' investment only is considered, then both rent and interest upon borrowed capital would be included; and finally, if cost to the public is to be determined, then return upon the entire investment should be included. The question is not one of cost in general, but rather cost as to a particular investment viewpoint. Does not the purpose of the cost system finally control the proper accounting practice?"

12 Graduate School of Business Administration, Harvard University, Bureau of Business Research, Bulletin No. 6, *Harvard System of Accounts for Shoe Wholesalers*, July, 1916, p. 28.

understood and observed). It is the writer's opinion, as has been indicated, that in most instances such introduction is likely to prove relatively inefficient and costly. But that is not to say that this accounting device is worthy of condemnation only.

STANLEY E. HOWARD.

Princeton University.

BIBLIOGRAPHICAL NOTE

The following list of references, chiefly to periodical articles, while not exhaustive, may prove useful to those who care to investigate further the subject of this paper.

AMERICAN INSTITUTE OF ACCOUNTANTS, "Report of the Special Committee on Interest in Relation to Cost," *Yearbook for 1918*, pp. 110-112 (con).

BAUER, J., "Rents in Public Utility Accounting," *Journal of Accountancy*, vol. 20 (July, 1915), pp. 21-27.

BERRIDGE, A. "The Treatment of Interest on Manufacturing Investment," *Ibid.*, vol. 16 (July, 1913), pp. 22-24 (con).

CASTENHOLTZ, W. B., "Is Interest on Invested Capital a Cost?" *Ibid.*, vol. 25 (Apr., 1918), pp. 248-254 (con).

CHURCH, A. H., "On the Inclusion of Interest in Manufacturing Costs," *Ibid.*, vol. 15 (Apr., 1913), pp. 236-240 (pro).

COLE, W. M., "Accounting Methods for Determining Costs and Prices," *Bulletin of The American Economic Association*, 4th series, no. 2 (Apr., 1911), pp. 2, 124-135 (pro).

————, "Interest on Investment in Equipment," *Journ. Account.*, vol. 15 (Apr., 1913), pp. 232-236 (pro).

DENNISON, H., "Interest on Capital as Part of Production Cost," *Journ. of Account.*, vol. 16 (Aug., 1913), pp. 145-148.

DICKINSON, A. L., "The Economic Aspect of Cost Accounts and its Application to the Accounting of Industrial Companies," *Bull. Am. Econ. Assoc.*, 4th series, no. 2 (Apr., 1911), pp. 110-123 (con).

————, "The Fallacy of Including Interest and Rent as Part of Manufacturing Cost," *Journ. Account.*, vol. 16 (Aug., 1913), pp. 89-92, a reprint from same journal, December, 1911 (con).

DUNCAN, J. C., Discussion of Mr. Dickinson's paper above referred to, *Bull. Am. Econ. Assoc.*, 4th series, no. 2 (Apr., 1911), pp. 146-149.

FEDERAL TRADE COMMISSION, *Fundamentals of a Cost System for Manufacturers* (1916).

GAUSE, E. C., "Relation between Interest and Manufacturing Cost," *Journ. Account.*, vol. 25 (Mar., 1918), pp. 187-190.

GOUGH, E. C., "Interest as Factor of Costs," *Ibid.*, vol. 15 (June, 1913), pp. 473-477.

HANEY, L. H., Discussion of paper by C. H. Scovell listed below, *American Association of University Instructors in Accounting, Papers and Proceedings* (of the third annual meeting), vol. 3, no. 1 (Jan., 1919), pp. 32-40. (con).

————, "Opportunity Cost," *American Economic Review*, Sept., 1912, p. 590.

HARVARD UNIVERSITY GRADUATE SCHOOL OF BUSINESS ADMINISTRATION, BUREAU OF BUSINESS RESEARCH, bulletin no. 6, ***Harvard System of Accounts for Shoe Wholesalers*** (1916).

HILTON, W. P., "Interest on Capital," *Journ. Account.*, vol. 22 (Oct., 1916), pp. 259-264 (con).

JOPLIN, J. P., "Interest Does Not Enter into the Cost of Production," *Ibid.*, vol. 15 (May, 1913), pp. 334-335 (con).

JOURNAL OF ACCOUNTANCY, editorial, vol. 22 (Sept., 1916), pp. 205-214

MACNEILLE, W. C., "Interest Charged to Cost," *Ibid.*, vol. 24 (July, 1917), pp. 76-77.

MAGEE, H. C., "Interest and Cost," *Ibid.*, vol. 26 (Nov., 1918), pp. 398-400.

MAHON, G., "Interest on Capital," *Ibid.*, vol. 22 (Oct., 1916), pp. 253-258.

MAY, G. O., "Reasons for Excluding Interest from Cost," *Ibid.*, vol. 21 (June, 1916), pp. 401-409 (con).

MILLER, H. C., "Interest on Manufacturing Investment," *Ibid.*, vol. 15 (June, vol. 15 (May, 1913), pp. 330-334 (pro).

NICHOLSON, J. L., "Interest Should be Included as Part of the Cost," *Ibid.*, vol. 15 (May, 1913), pp. 330-334 (con).

NICHOLSON AND ROHRBACH, *Cost Accounting*, pp. 138-140 (pro).

PATON and STEVENSON, *Principles of Accounting*, pp. 613-615 (con).

RASTALL, E. S., "The Fisherman's Problem," *Journ. Account.*, vol. 24 (Dec., 1917), pp. 450-452 (con). This is a very interesting and suggestive contribution to the literature of this subject, although buried under a misleading title.

REID, W. R., "Interest on Capital Invested—A Cost Factor?" *Ibid.*, vol. 16 (July, 1913), p. 85 (con).

RICHARDS, W. B., "Interest not a Charge against Costs," *Ibid.*, vol. 16 (Apr., 1914), pp. 240-241 (con).

SARGENT, S. E., "Interest and Cost," *Ibid.*, vol. 16 (Sept., 1913), pp. 255-256.

SCOVELL, C. H., "Interest on Investment as a Factor in Manufacturing Cost, Especially in Connection with War Contracts," *American Association of University Instructors in Accounting, Proceedings*, vol. 3, no. 1 (Jan., 1919), pp. 12-32 (pro)

SIMPSON, K., "Price Fixing and the Theory of Profit," *Quarterly Journal of Economics*, vol. 34, no. 1 (Nov., 1919), pp. 138-160.

STERRETT, J. E., "Interest not a Part of Cost of Production," *Journ. Account.*, vol. 15 (Apr., 1913), pp. 241-244 (con).

SUFFERN, E. L., "Interest as an Element of Production Costs," *Ibid.*, vol. 15 (May, 1913), pp. 329-330.

TEMPLE, H. M., "Treatment of Interest," *Ibid.*, vol. 15 (June, 1913), pp. 431-432 (con).

WATTS, G. T., "Interest and Cost," *Ibid.*, vol. 16 (Sept., 1913), pp. 256-259 (con).

WILDMAN, J. R., "Interest on Owned Capital," *Ibid.*, vol. 15 (June, 1913), pp. 428-431.

WRIGHT, W. C., "Depreciation, Interest, and Manufacturing Cost," *Ibid.*, vol. 20 (Nov., 1915), pp. 361-364 (con).

——————, "Interest and Cost," *Ibid.*, vol. 16 (Nov., 1913), pp. 414-415 (con).

COMMUNICATION

Coördination in Taxation[1]

The report of the Committee on Coördination in Taxation, as printed in the proceedings of the annual meeting of the American Economic Association, published as a Supplement to the American Economic Review for March, 1920, failed to include modifications and proof corrections which reached the editor or printers too late for inclusion, as did also Professor Farnam's notes of dissent, printed below.

Professor Farnam's modifications respecting the income tax amendment might well have been adopted in the report, had the notes reached the chairman with the return of the proofs submitted to the several members of the committee.

In respect to state income taxes, the New York state provision as to non-resident incomes (p. 254), which failed to provide for non-residents the same exemption as for residents, was declared unconstitutional by the United States Supreme Court in the Yale and Towne Manufacturing Company case, and the provision has been replaced by the legislature of 1920 by an amendatory bill, making the same provision for non-resident as for resident exemptions.

Attention should be given, in connection with the report, to the informing and valuable article by Professor Harley L. Lutz on "Progress of State Income Taxation since 1911," pages 66-91 of the regular number of the American Economic Review for March, 1920, which forms practically a supplement to the committee's report, but which did not reach the other members of the committee in connection therewith. Montana and West Virginia are there scheduled as additional states having income taxes, but these, like the earlier taxes in New York state and those in Connecticut, are confined to corporation incomes and are not income taxes in the general sense.

Respecting inheritance taxes (p. 257), the report fails to indicate that the federal law does not apply to estates within $50,000 and that the initial taxes apply to the first $50,000 above the exempted $50,000. On the question of whether inheritance taxes should be wholly federal or state, or partly both, the members of the committee held divergent opinions, and Professor Farnam's statement in favor of assigning these exclusively to the states should have careful consideration, as should also his plea for making income taxes exclusively national, despite the trend of current state legislation to the contrary.

[1] Addendum to report of committee. See American Economic Review Supplement, March, 1920, pp. 248-262.

In the summary of conclusions (p. 261) there is a proof-reading error, perhaps self-evident, whereby an error in spacing the phrase "with inadequate return," *i.e.*, "without adequate return," is transformed into "within adequate return." It should be stated, in view of Professor Farnam's note of dissent on this paragraph, that it was not intended to suggest exclusion of tobacco, which produced $206,003,091 revenue in the fiscal year 1918-1919, and other commodities producing large revenue return, from normal excise taxation in time of peace, but chiefly the omission of the multifarious taxes imposed during the war on a variety of products or transactions in which especially the revenue return was small in comparison with cost of collection or annoyance to the consumer.

Professor Farnam's notes of dissent follow:

1. I cannot agree to the statement on page 250 that the Sixteenth Amendment abrogates Article I, Section 9, Sub-Section 4 of the Constitution. The amendment contains no repealing clause, and though its effect is to prevent Section 9 of Article I from being made use of to overthrow an income tax, it still leaves its provisions applicable to "capitation" and "other direct taxes." Similarly the statement on page 251 that income taxes were forbidden to the federal government by Section 9, Article I, of the Constitution is misleading, inasmuch as this interpretation was not put upon that section until more than 100 years after the Constitution had been adopted, and more than 30 years after the income tax of 1861 had been enacted and enforced.

2. I believe that more prominence should be given in the summary on page 261 to internal revenue taxes on various articles of common consumption, such as tobacco, patent medicines, matches and various activities, such as entertainments, transportation, insurance, etc. All of these are grouped with import duties in a single expression "excise taxes of large return levied on the growth or manufacture of luxury products produced throughout the country." These taxes produced in the fiscal year 1918-1919 over $640,000,000, as against $483,000,000 from alcoholic drinks, and in view of the loss of revenue to be expected from the loss of the liquor taxes, if prohibition is maintained as our permanent policy, it seems especially important to develop this lucrative group of taxes on consumption as distinguished from taxes on income or property.

3. As a matter of principle, I think that inheritance taxes should not be left within the neutral zone open both to the states and to the federal government, but should be assigned to the states. I base this

partly upon the fact that the states have control over the laws of inheritance and of the courts of probate, and should, therefore, enjoy the taxing power within the limits of their own jurisdiction. I also believe that as a practical measure it is undesirable to have two cumulative taxes upon one property or estate as we shall have, if both the federal government and states maintain their inheritance taxes.

4. I believe that the general income tax should be assigned to the federal government: (a) to avoid the double taxation referred to above in connection with inheritance taxes; (b) in order to make it impossible for people to escape their share of income taxation by taking up their residence in states with low or no income taxes; (c) to avoid conflict which is sure to arise when people who have their legal residence in one state have their business or professional headquarters in another state. H. W. FARNAM.

In case a future edition of the committee's report should be printed, these corrections and notes of Professor Farnam's views will be included in the report. R. R. BOWKER, CHAIRMAN.

General Works, Theory and Its History

Social Process. By Charles Horton Cooley. (New York: Charles Scribner's Sons. 1918. Pp. 430. $2.00.)

Readers of Professor Cooley's earlier books, *Human Nature and the Social Order*, and *Social Organization*—especially those who have used either as a text in sociology—must await with interest any further work put out by him. They will not be disappointed in the present work which is a continuation and amplification of the point of view and philosophy of the preceding books, especially *Social Organization*.

The present work is divided into seven parts dealing respectively with the organic view of the process of human life, personal aspects of social processes, degeneration, social factors in biological survival, group conflict, valuation, and intelligent processes. The main interest of the economist in this work will naturally attach to Professor Cooley's treatment of valuation and to his continued pointed attack upon the economic interpretation of history. To these points this review will give its major attention.

It would be unjust, however, to the author to omit any criticism of the more strictly sociological portion of the work. To the writer, Cooley's work has always been distinctly stimulating and suggestive and his *Social Organization* has been found to be perhaps the most distinctly stimulating book as yet available for classes in sociology. But it has always been difficult to decide, however, whether his work is sociology or ethics, and it is just at this point that "hard-boiled" critics might assail him; for this book, like the entire theoretical part of *Social Organization* is shot through and through with an idealism which some methodologists would hold incompatible with a scientific treatment. Those who hold this view will insist upon the necessity of a strict separation of the "is" from the "ought," and will maintain that in sociology, as well as in economics, no scientific headway can be made as long as ethical considerations are not coldly kept to one side. The reviewer is unable to accept this view. although there are doubtless grave dangers in the method followed by Professor Cooley and many "social economists." These dangers Professor Cooley has, in the main, avoided, although he at times approaches suggestively near to homiletics.

His treatment of social relations and processes is scientifically as

well as analytically and practically functional. The fact that he devotes over one hundred pages to degeneration, biological survival, and group conflict shows that he does not neglect the conflict aspect of organization; but his real, positive contribution lies in the place he gives to organization, coöperation, democracy (regarded *primarily as opportunity), and to independent purposeful control* for collective ends. Organization and coöperation he regards as fundamental processes. Now while idealism must relate mainly to purpose and function—to the ethical rather than the scientific—the idealist, if he be at the same time a man of broad scientific training, is often in position to sense important facts and relations and to draw more subtle, but not less powerful, generalizations than the hard-boiled mind is able to compass. Professor Cooley's idealism is of this type. It is in the main an aid rather than an obstacle to his objective, scientific insight.

Part I, dealing with the organic view, is in substance a repetition of the matter contained in *Social Organization.* In chapter 4 he passes to the relation between organization and conflict. This is one of the least satisfactory chapters in the whole book. He might have worked out an instructive chapter on the conflicts and interactions of the various institutions and interests—economic, religious, moral, esthetic, etc.,—which constitute the organic social process. But instead he gives us a series of topics on conflict and coöperation each touched but superficially, interlaced with near-homiletic observations, and rounded out in chapter 5 with a somewhat querulous though pointed attack upon the narrowness of economic particularism. Later in the book he comes back to this attack upon the classical traditions and methods in economics.

Part II on the personal aspect of social process contains matter of much interest, especially a discussion of opportunity in relation to culture and class. One can only regret that he does not give a less superficial discussion of the elimination of organized misery (pp. 85-86). In chapter 12, on the competitive spirit, is matter which may be recommended to the attention of those who think that the pecuniary motive is the only dependable motive of economic and public service. The content of his chapter on the higher emulation—an emphasis on support by group spirit, sense of security, and self-expression—is of the highest importance.

In part V he comes back to conflict in relation to organization. His main line of thought seems to be that there is and must be a

gradual softening of the outlines of conflict and overlapping of groups and a growth of democracy. There is perhaps an optimistic overemphasis upon this softening of conflict, and an overlooking especially of the sharpness of the labor-capital conflict as it expresses itself at the present. Yet he does not take it for granted that democracies will necessarily be any less pugnacious or more capable of rational integration than other forms of organization.

To the economist the central interest of the book will lie in part VI, on valuation. Here Professor Cooley's fundamental thought is that all values, whether ethical, esthetic, or what not, are reducible, at least distantly, to pecuniary expression. In pursuit of this thought he distinguishes between what he calls human and institutional values, the first being "those which may be traced without difficulty to phases of human nature," the second "those which must be ascribed to some institution of some sort." This distinction leads to a long treatment of the institutional character of pecuniary valuation. Perhaps the chief critical question which will arise in this connection is, How does such a distinction between human and institutional values comport with Professor Cooley's organic view of the individual? Are there any valuations of consequence to which he can point as distinctly human and uninfluenced by institutional relations? Moreover, are we ready to say what are pure human values until the psychologists come more nearly into agreement on the original nature of man? Professor Cooley himself says (p. 302): "It seems probable that the more we consider, in the light of an organic view of society, the practice of discussing values apart from their institutional antecedents, the more sterile, except for somewhat narrowly technical purposes, this practice will appear." With this statement we heartily agree. Its significance for the student of economic values is found in the further assertion (p. 338) that "the progress of market valuation, as a rule, is a translation into pecuniary terms of values which have already become, in some measure, a social institution." Thus Professor Cooley joins the ranks of the recalcitrant economists, headed by Veblen, in their refusal to accept mere demand as a final datum line. Professor Cooley, perhaps, does not add to the familiar treatments of this subject by Veblen, Anderson, and others. What it all amounts to is a plea for historical and critical study of consumption standards and motives, which are obviously formed and influenced by a great variety of institutions, fashions, customs, and class included. In chapter 28, in which he discusses the pecuniary

sphere of valuation, the author seems momentarily the victim of a reversion to the economic interpretation of things, which is curious on the part of one who has fought economic determinism as hard as he has. "The distinctive function of money values," he says, "is to generalize or simulate values through a common measure." This is as much as the most unregenerate addict to economic determinism could claim.

But Professor Cooley quickly passes to the limitations to the pecuniary sphere, and here he comes back to the ethical aspect of his organic concept. "It would be fatuous," he says—and we agree with him—"to assume that the market process expresses the *good* of society." Further, even assuming that the demand does represent the good of society, the pecuniary motive cannot be trusted to stimulate production to efficiency. "The pecuniary motive can serve as an effective guide only in the case of deliberate production, for the sake of gain, and with ownership in the product" (p. 317). Present-day industrial psychology and the failure of older types of scientific management show that; but Cooley's objection lies in another direction. "The limitations on this motive shut out," he says, "the whole matter of production and development of men, of human and social life." The pecuniary process can never be trusted to control social life even on the economic side. And again, "Personal and social development must, in general, be sought through rational organization having a far wider scope than the market . . . and including, perhaps, radical reforms in the pecuniary system itself. It would be hard to formulate a principle more fallacious and harmful than the doctrine that the latter is an adequate regulator of human life, or that its own processes are superior to regulation" (p. 18). We are at a loss in this connection to know whether Professor Cooley is aiming his dart at specific theorists, or whether he is merely knocking down straw men.

In chapter 28 on the progress of pecuniary valuation, having already observed that notwithstanding the insufficiencies of pecuniary valuation the character of modern life seems to call for extension of its scope, he takes up the question as to why pecuniary values whose functions are so essential, and should be so beneficent, "appears in practice to ignore or depreciate many kinds of value, and these often the highest, by withholding pecuniary recognition; and, on the other hand, to create or exaggerate values which seem to have little or no human merit to justify such appraisal" (p. 333). The answer lies in brief in the breakdown of institutional

conventions which intervene between psychological values and their pecuniary expressions. The discussions which follow constitute probably what is the keenest part of the whole work.

In closing, a word may be said with regard to Professor Cooley's style. He may be regarded as a sort of modern sociological prototype of Emerson. *His smooth-flowing sentences and his excessively mild manner make difficult reading. After a few chapters* one becomes cloyed; but lay the book away and come back to it in a few days, and it is as fresh and stimulating as ever. Professor Cooley has the velvet paw—concealed within which the sharp claw is barely visible. One wishes occasionally that the prehensile power, which doubtless lies behind the claw, were not so uniformly repressed.

A. B. Wolfe.

University of Texas.

NEW BOOKS

Barnard, W. G. *The equitable division of the production.* (Seattle, Wash.: Author. 1920. Pp. 31.)

Chimienti, F. *L'attribuzione del prodotto industriale ai suoi fattori.* (Torino: Bocca. 1920. l. 18.)

Clarke, J. J. and Pratt, J. E. *Outlines of industrial and social economics.* (London: Pitman. 1920. Pp. 112.)

Clow, F. R. *Principles of sociology with educational applications.* (New York: Macmillan. 1920. Pp. xiv, 436.)

Cole, G. D. H. *Social theory.* (New York: Stokes. 1920. Pp. 220.)

Douglas, C. H. *Economic democracy.* (New York: Harcourt, Brace & Howe. 1920. Pp. 144.)

The evil of the existing system of production economics is the "constant filching of purchasing power from the individual in favor of the financier, rather than in the mere profit itself." The problem to be solved is the establishment of a stable ratio between the use value of effort and its money value. Prices should be fixed on the broad principles of use value.

Edie, L. D., editor. *Current social and industrial forces.* (New York: Boni & Liveright. 1920. Pp. 292. $2.50.)

A collection of more than one hundred extracts of articles on Forces of distribution; Potentialities of production; Price system; The direction of industry; Funds of reorganization (surplus product, social minimum, national credit and taxation, labor and the new social order); Power and policy of organized labor; Proposed plans of action; Industrial doctrines in defense of the status quo; Possibilities of social service. Extracts are largely from the writings of critics of the present economic system.

GIDE, C. and RIST, C. *Cours d'histoire des doctrines économiques.* Third edition. (Bordeaux: Y. Cadoret. 1920. 29 frs.)

KIEKHOFER, W. H. *An outline of the elements of economics.* Third edition. (Madison: Author, University of Wisconsin. 1920. Pp. 142.)

LABRIOLA, A. *Manuale di economia politica.* (Naples: A. Morano. 1919. Pp. 432.)

LEARY, D. B. *A group-discussion syllabus of sociology; topics, questions and references for an introductory college course.* (Buffalo: University of Buffalo. 1920.)

LIEFMAN, R. *Grundsätze der Volkswirtschaftslehre.* Band 2, *Grundlagen des Tauschverkehrs.* (Stuttgart: Deutsche Verlagsanstalt. 1919. Pp. xvi, 855.)

MCPHERSON, L. G. *The flow of value.* (New York: Century. 1919. Pp. 473.)
To be reviewed.

MECKLIN, J. M. *An introduction to social ethics; the social conscience in a democracy.* (New York: Harcourt, Brace & Howe. 1920. Pp. 446. $2.75.)

MUHS, K. *Begriff und Funktion des Kapitals.* (Jena: Fischer. 1919. Pp. 104.)

OCH, J. T. *A primer of political economy in catechism form: questions and answers, being a synopsis of lecture on political economy as delivered in the Pontificial College Josephinum.* (Columbus, O.: Josephinum Press. Pp. 170. $1.)

ODENBREIT, B. *Die vergleichende Wirtschaftstheorie bei Karl Marx.* (Essen: Baedeker. 1919. Pp. xix, 173.)

PLENGE. *Die Stammformen der vergleichenden Wirtschaftstheorie.* (Essen: Baedeker. 1919. Pp. xix, 173.)

SOLVAY, E. *Energétique sociale. La rémunération comparative du capital et du travail.* (Brussels: Buggenhondt. 1919. Pp. 25.)

TOSI, V. *Elementi di economia industriale.* (Milan: Hoepli. 1920. Pp. xxx, 362.)

WYGODZINSKI, W. *Einführung in die Volkswirtschaftslehre.* (Leipzig: Quelle & Meyer 1920. Pp. 149.)

Economic History and Geography

An Introduction to the Industrial History of England. By ABBOTT PAYSON USHER. (Boston: Houghton Mifflin Company. 1919. Pp. xxii, 529, xxxiv. $2.50.)

Those who have taught European economic history to undergraduate students know that a serious obstacle to effective work

lies in the lack of satisfactory manuals. Some small books giving in outline a survey of the course of development are excellent. The *Select Documents* of Bland, Brown, and Tawney are admirable material of the kind. The need of a substantial manual, however, has not yet been filled, and the author's contribution will be welcomed with interest and hope by many teachers. It "has been planned and written with a view to the needs of college classes beginning work in economic history." In summary the ground has been covered as follows. The first two hundred pages, roughly, are given to a general introduction on the forms of industrial organization, to chapters on the crafts of antiquity and of medieval France, on the population of England 1086-1700, on the manor, on towns, and on gilds. Two chapters cover the woolen industries and agrarian history in the transition period. The last three hundred pages, roughly, are given to the industrial revolution of the eighteenth and nineteenth centuries, including chapters on the cotton and iron industries, on the factory system, collective bargaining, social policy, and other topics to be noticed later.

The author brings to his work some qualities to be highly prized. He has a wide range of information, a good measure of critical scholarship, an initiative which has led him on occasion from the beaten track and has resulted in the contribution of some interesting material. His exposition is generally clear. The balance of general statement and of particular fact is in most chapters good. The author is usually a trustworthy guide. I note briefly points on which his statements appear to me to be mistaken or misleading, but I do not attach great importance to the list. Capitalistic control had appeared in Paris, 1300, only "to a slight and uncertain extent," page 72 (*cf.* Martin St. Leon's analysis of the tax roll of 1292); Roman "field arrangements left traces in both Gaul and Britain," page 121 (*cf.* Haverfield on Meitzen in *English Historical Review*, 1908, 23: 543, and Tait on Seebohm in the same journal, 1915, 30: 100 ff.); the merchants of the Staple were "mostly native Englishmen," page 147, (*cf.* Jenckes, 12, 33); restriction of the causes of the industrial revolution to "the mechanical achievement; the commercial changes; or physiographic factors," page 252; the iron industry led the field in the United States, 1909, in number of persons employed, page 258; chapter xi *passim* on the course of commercial policy and its results, and on the doctrine of the period; the inquiry of 1833-34 showed "that a number of parishes had been abandoned to the poor," page 365 (*cf.* Report, 1834, p. 64; Cholesbury was the sole instance).

The most serious weakness of the work, when it is appraised as a manual for college undergraduates, lies in its plan rather than in its execution. The author appears to me to sin both in commission and in omission. Chapters 2 and 3, on The Rise of the Crafts in Antiquity, and on Crafts and Craft Gilds in Medieval France, are excursions that are relatively unprofitable; chapters 17 and 18 on the railways are written from a technical standpoint, make but slight contributions to industrial history, and omit altogether consideration of roads and canals; a large part of chapter 19 on monopolies is not history but contemporary economics.

On the other hand the author treats slightly or omits altogether subjects which are vitally connected with industrial history. "That commerce is the conditioning factor in industrial development," we read on page 39, "is designed to be the thesis of the present work." Yet, after the medieval period, there is only one chapter, that on the East India Company, in which any considerable attention is given to the relation of commerce to industry; and in this chapter protection from commerce (*i.e.*, from the import of Indian textiles) is presented as the determining factor in the development of the English cotton industry. The extension of the market for manufactured wares is assumed, not described; changes in the character of the import trade are dismissed in a similar summary fashion. I noticed only a bare allusion to the reforms of the customs tariff in the eighteenth and nineteenth centuries, and no reference at all to the industrial effect of the Corn Laws and their repeal.

Another aspect of industrial history, namely its finance, has been neglected in almost equal degree. The author refers in his bibliography to one of Sombart's works, but he has missed the points of Sombart, Schmoller, Weber, and other German scholars who have discussed the development of capitalism, and treats that subject in a formal and narrow way. No attention is paid to the investment processes vital to modern industry, illustrated in banking, the stock company, the stock exchange, etc.; no reference is made, so far as I observed, to the establishment of the system of patents.

It seems ungracious to criticize an author for what he has not attempted. It is improper to do so when his contribution is an investigation addressed to scholars. A manual designed for students must be judged by stricter standards. Credit must be given the author for what he has contributed on many important subjects, and for the notably full treatment of the technical history

of manufactures. He has taken pains to illustrate his subject by maps, figures, and graphs, and has provided a serviceable bibliographical apparatus. I think, however, that few teachers who examine the book will dissent from the conclusion that it would be greatly improved if a large part, almost one third of the whole, were cut out, and if the space saved were used for the consideration of the topics now omitted. Whether, in its present form, it will serve better than other manuals must be determined by each teacher with reference to his particular needs. The question rises in my own case, and I am still in doubt.

Yale University. CLIVE DAY.

Empire and Commerce in Africa. A Study in Economic Imperialism. By LEONARD WOOLF. (New York: The Macmillan Company. 1920. Pp. 374.)

This book is a study of economic imperialism by one to whom its aims and methods are alike morally repugnant. It is the author's conviction that the foreign policy of the modern state is shaped by the economic desires of its citizens and that the power of the nation has been placed at the command of the strongest of its commercial classes to be used in the furtherance of their aims and purposes (p. 14). Viewed in the light of the economic development of the nineteenth century which brought forth an ever-growing industrialization of European nations and an ever-increasing dependence of the average citizen upon the smooth working of the industrial machine, it seemed clear to statesmen that the supreme interest of the citizens lay in the acquisition of markets, both for raw materials and for finished products. Practically all of the foreign programs of European nations—the colonial policy, the spheres of influence, the acquisition of exploitable territory from peoples of lower culture—is attributed by the author to this belief of the statesmen. This ideal of imperialism has left its mark upon the weaker nations in all quarters of the globe. "It has converted the whole of Africa and Asia into mere appendages of the European state, and the history of those two continents, the lives men live in Nigeria or Abyssinia, in India and Siam and China, are largely determined by the conviction of Europeans that 'Commerce is the greatest of European political interests' " (p. 10). It is the purpose of the author to prove this contention so far as it concerns Africa and to set forth the results, good and bad, of economic imperialism in that continent.

Omitting consideration of Egypt, Mr. Woolf records in detail the history of those portions of Africa which fell under the influence of European imperialism. Separate chapters are devoted to Algeria, Tunis, Tripoli, Abyssinia, Zanzibar, and the Belgian Congo. In all cases the sequence of events as disclosed by the narrative is much the same. The awakening of covetous desire in the hearts of European statesmen; the entering wedge of commercial or financial enterprize, ostensibly promoted by private initiative but in reality fostered by the state; the eventual declaration by the home government of its intention to guarantee the integrity of the economic advantages thus gained by its citizens; the marking out of spheres of influence; the friction aroused between the Powers by the crossing of imperialistic purposes, and the threat of war; the adjustment of these international differences by the devious methods of diplomacy, and the final emergence of the victor secure in the possession of the spoils. No patriotic bias is shown in the record. France, Italy, England, Germany, and Belgium are accused impartially of sordid motives and heartless conduct, though the testimony of results forces the admission that of all these nations England has shown the shrewdest foresight and the wisest selection of means for the attainment of her purposes. A high order of merit is shown by the writer in his skillful disentangling of the strands of intrigue in which the imperialistic aims of the rival states are involved, and in the accomplishment of his main intent: to set forth clearly the sequence of events which discloses the true purpose of Europe in its penetration into Africa. A generous equipment of maps illustrates the text, and a reproduction of the necessary documents lends support to the narrative of diplomatic intrigue.

The book closes with two chapters summing up the effects of economic imperialism upon Europe and Africa. It is shown that in every case the resources of the unexploited country were wildly exaggerated. Statistics are given to prove that even when measured in terms of material gain, the policy has paid no profit to the people of Europe; indeed, that the expenditure has far outweighed the receipts. Trade has not followed the flag; the nations of Europe are gaining immeasurably more from commerce among themselves and with other independent peoples than they gain from the exploitation of territory wrested from weaker races in Africa. When a different test is applied and economic imperialism is judged by what it has contributed to the happiness of the subject peoples

of Africa, the verdict is similarly adverse and is furthermore embittered by the moral condemnation of the author. When shown in this light, the foreign policy of the civilized nations assumes an aspect of heartlessness and brutality.

At no time is the historian on more precarious ground than when he attempts to depict the human motives which lie behind the events of history. The author's difficult task, that of tracing to a single motive the complex foreign policies of many states through an extended period of time, is especially open to the risk of bias. Mr. Woolf acknowledges this risk at different points in his book and frankly confesses the improbability of his succeeding in escaping it. His book leaves the reader with the impression that he has not wholly succeeded. To attribute the policies of the various chancelleries solely, or even chiefly, to the pressure of profit-seeking capitalists leaves out of account the many non-economic forces which national pride and patriotism bring to play upon the relationships of states. This criticism applies, however, only to the author's attempted explanation of motive. His record of fact gives evidence of careful verification, and his summary of results is convincingly stated. Even those readers who cannot agree that a single motive actuates the modern state in its imperial policy will find this study of the progress of empire in Africa illuminating and suggestive.

E. S. Furniss.

Yale University.

Working Life of Women in the Seventeenth Century. By Alice Clark. (London: George Routledge and Sons. 1919. Pp. 335.)

The research student grows fond of the period of his discoveries. He is charmed by its quaintness and he loves it for its picturesqueness as he compares it with the starkly familiar arrangements of his modern world. It becomes difficult to resist invidious comparisons in favor of the mosaic he has created from fragments of life found in old records.

Perhaps Miss Clark has succumbed to this subtle temptation and views the seventeenth century in the rosy light so easily invoked over the good old days of bygone times. For her the present shadow which sets off the golden glow of her period is "the blind force Capitalism." It is capitalism which has robbed women of their larger economic and social functions. In concluding, she

asks us to consider whether "the instability, superficiality and spiritual poverty of modern life, do not spring from an organization of a State which regards the purposes of life solely from the male standpoint." "The earlier English Commonwealth did actually embrace both men and women in its idea of the 'Whole' because it was composed of self-contained families." Now the state regards "the individual, not the family, as its unit, and in England this State began with the conception that it was concerned only with male individuals. Thus it came to pass that every womanly function was considered as the private interest of husbands and fathers."

These concluding remarks raise the questions: first, has Miss Clark proved the case that women had a fuller and more responsible share in production in the seventeenth century than is permitted them in the twentieth, and have we, in fact, greater superficiality and spiritual poverty to account for—questions which the reader may not readily answer in the affirmative.

Miss Clark states that her purpose is "to discover how far the extent of women's productive capacity and the conditions under which it was exercised affected their maternal functions and reacted upon their social influence both within and beyond the limits of the family" (p. 3). One wonders whether the author's real interest is not in sociological and psychological phenomena *per se* rather than in their economic explanations. At one point she nearly throws the whole economic interpretation overboard in favor of an almost mystical suggestion: "These far-reaching changes coincided with the triumph of capitalistic organization but they may not have been a necessary consequence of that triumph. They may have risen from some deep-lying cause, some tendency in human evolution which was merely hastened by the economic cataclysm" (p. 13).

It is claimed that capitalism has reversed the parts played by married and unmarried women in productive enterprise; that what we now call domestic work, such as cooking, cleaning, mending, and the care of children, was before the advent of Capitalism performed by young girls under the direction of the housewife, while under modern conditions, this domestic work falls upon the mothers. Yet the reader is not likely to forget that unmarried women do now go out to do domestic work in enormous numbers and that a very considerable number of married women engage in industry today.

The work of women is considered in five chapters entitled: Capitalists, Agriculture, Textiles, Crafts and Trades, and Professions.

Women of the aristocracy and *nouveau riche* (capitalists) were usually concerned with household affairs, and with estate management and business in the absence of their husbands. Numerous private letters and other records in which these activities are set forth are quoted. They deal almost exclusively with married women and widows. The author assumes that "the effect of such work on the development of women's characters was very great" but brings to light no evidence to show what the effect was. "The effect in social relations was also marked *for their work implied an association of men and women*."[1]

The duties of a prosperous farmer's wife as quoted at length from Fitzherbert's *Boke of Husbandrie* of a hundred years earlier "probably remained true of the seventeenth century." The dairy, poultry, garden, and orchard were the domain of the mistress. "Her duty was to organize and train her servants, both men and women." The wife of the husbandman who could not subsist entirely on his holdings and of the worker in the lowest agricultural class who depended entirely upon his earnings (having no land of his own) each led lives of little comfort. The wages of the agricultural laborer are stated with great definiteness to have averaged 3s. 2d. per week (p. 67). The reader is given no basis for the statement that: "Except in exceptional circumstances his wife's earnings would not amount to more than 1s. a week and her meat and drink" (p. 68). Bad housing, bad feeding, and small families resulted from insufficient incomes. The women were semi-starved and "their productive powers and capacity for motherhood were greatly reduced."

The predominance of women in the textile industry and the capitalistic organization of the woolen trade in the seventeenth century make it an important field in which to observe the effect of capitalism on women's economic position. In spite of the fact that the demand for women's labor exceeded the supply, the wages paid to women for spinning wool were barely sufficient for their individual subsistence, and for spinning linen they were insufficient. The low wages are explained by disorganization and the lack of bargaining power.

In the earlier days weaving had been to some extent a trade for

[1] Reviewer's italics.

women, but they were later excluded on the ground that their strength was not sufficient for the heavy looms. There is nothing to indicate that women had any considerable part in the management of the large and profitable undertakings of the clothiers and wool-merchants.

Girls were not apprenticed to the specialized and skilled trades of the guilds, but marriage to a guild member conferred upon them the rights and privileges of the husbands and a widow might continue the business. Miss Clark finds that her general contention that, as capitalistic organization developed, opportunities were more and more denied to women, applies particularly to work in the skilled and semi-skilled trades, but the evidence is not analyzed to show this.

Retail selling offered more scope for women, though this was also to some extent restricted by the rules of the companies and corporations and the requirement of an apprenticeship.

The position of women in certain of the professions was less favorable at the end of the seventeenth century than at the beginning. Arms, the Church, and the Law were entirely closed to them throughout the period, but whereas the activities of the farming people and artisans had been regulated by customs, depending for interpretation on public opinion in which both men and women had a part, during the seventeenth century many of these customs were abrogated "in favor of common law."

Nursing was poorly paid and held in little esteem. The hospitals gave nurses practically no training. A less and less significant rôle in all the arts of healing was permitted to women. Miss Clark sees in women a "natural affinity for the care of suffering humanity" and holds that "the psychic and emotional female development appears to make women more fitted than men to deal with preventive and remedial medicine."

Midwifery, "the most important public function exercised by women," was on a different footing and frequently brought a good revenue. During the seventeenth century, however, the monopoly which had always belonged to women in this profession passed "definitely under the control of men."

Throughout the study the contrasts which are suggested in the general statements do not appear to belong peculiarly to the seventeenth century. For the most part they might be applied as accurately to the greater part of the eighteenth century, or to earlier periods, when these periods are compared with the present

industrial era. Indeed it is frequently difficult for the reader to distinguish the characteristics of the seventeenth century from those of the sixteenth and eighteenth, from which illustrative data are repeatedly drawn.

The author frequently starts out with a sociological dictum such as that which asserts the great influence of environment upon the sex life of women, which she believes to be susceptible of extreme modification: "While in extreme cases the sexual impulses are liable to perversion, it sometimes happens that the maternal instinct disappears altogether, and women neglect or, like a tigress in captivity even destroy their young"! ! (p. 1). Few of these dicta are followed by the exhibit of actual changes occurring in the seventeenth century.

The data are concerned almost exclusively with married women, and the reader's curiosity with regard to the unmarried is not quenched by the remarkable statement that "practically all adult women were married" (p. 196).

The authorities cited comprise 12 pages of carefully listed sources, including private letters and journals of contemporaries, biographies and travels, court cases, local histories, town and parish archives, guild and corporation records, and miscellaneous tracts and pamphlets in large numbers.

In spite of the fact that the author's powers of induction are not at all points comparable with her industry, the painstaking work is a monument to her effort, and is of unquestioned value in its presentation of contemporary evidence.

Amy Hewes.

Mount Holyoke College.

Un Impôt Extraordinaire sur le Revenu sous la Révolution. Histoire de la Contribution Patriotique dans le Bas-Languedoc (Département d'Hérault) 1789-1795, d'après des Documents Inédits. By Pierre-Edm. Hugues. (Paris: Edouard Champion. 1919. Pp. lxxvii, 330.)

Bankruptcy forced the king of France in 1789 to summon the States General. At the advice of Neckar the Assembly passed a measure which the king accepted, imposing a "voluntary contribution" on the French nation. All citizens having an income of over 400 livres were to give to the state one quarter of their net income, and 2½ per cent of the value of their plate, jewelry, and coin. The tax was to be levied only once and all money re-

ceived was to be re-paid when the state's finances had been rehabilitated. It was a forced loan which people soon came to see would never be paid back.

The book under consideration presents not only a brief statement of the national situation but a detailed study of how the "patriotic contribution" worked itself out in one department in southern France. The author's main interest is in the way in which the tax was assessed and collected. He has used chiefly the departmental archives of Hérault and the municipal archives of Montpellier, and to a slight extent the *Archives Nationales* in Paris. The contents of the documents are well presented, and indeed the whole book is scholarly and eminently readable.

At first there was some show of enthusiasm for the tax which was to put France on her feet again. Gradually this waned as the tax came nearer to the individual who was to pay it. In general one can say that the county districts were less ready to do their part than the towns. The law assumed that all would come forth and make declaration of their income and of such property as was liable, but it was found necessary in 1790 to decree that non-declarants should be taxed by the municipalities. From first to last it was the rule that each declarant should be trusted; that there should be no inquisition as to the truth of statements of income and wealth. This the author regards as fatal to the success of the tax.

Sieur Bougette wrote to the Assembly that he would like to contribute but his business had not prospered, that if the Assembly would compel a certain Parisian to pay him a debt of 3960 livres incurred in 1788, he would contribute 300 livres to the patriotic fund. Of course one quarter of this debt would be 990 livres, so that Bougette was making ample allowances for expenses, in other words giving himself a large benefit of doubt in reckoning his net income.

A curé, receiving an income of 700 livres, deducted 40 livres for tenths (*décimes*), 30 for minor expenses, 15 for repairs and entertainment, and 30 for the hire of a clerk. Such declarations were published so that there was at least the strength of public opinion to help enforce the law.

The tax might be paid in three instalments, the last to be in by April 1, 1792; that is, a little less than two years and a half were allowed for payment. But the department under consideration actually took six years to pay up its full amount, the years

1791-1795 being occupied with stimulating the tardy and recalcitrant. But the interesting fact is that Hérault did pay in full, certainly not a fourth of its income but a fourth of its declared income and 2½ per cent of its valuables. Only three quarters of the total receipts were available for the central government, however, after the cost of collection had been deducted. France had expected 400 million livres from the whole country and received only 200 millions. The rich and well-to-do, and the bourgeois with an income of over 400 livres, did not hold back; the petty traders and the laborers did. For this the bad economic conditions of the time were ample excuse. It should be observed that those with incomes of less than 400 livres were simply invited to contribute, in no way required. They may have felt, we surmise, that the tax was really not their burden, and they may have observed that it was the middle class rather than the proletariat that was benefiting by the new régime.

This book, confirming the conclusions of other local investigators and of students of the national finances, gives us many details and illustrations of value. Its bearing upon the situation in France at the present time, the author tries to make real. France has been listening to arguments for and against a general income tax to meet the burdens of war. This study of an early example of such tax indicates that it would be a failure; that it is a delusion to say that an income tax is equitable if men do not truthfully declare their income. Of course the force of this application of the analogy of the two cases may be somewhat lessened if the new law provides means of strict inquiry into any questionable declaration.

N. S. B. Gras.

University of Minnesota.

NEW BOOKS

Allen, N. B. *Geographical and industrial studies; the new Europe.* (Boston: Ginn. 1920. Pp. xii, 435.)

Austin, O. P. *Effect of the war on world trade and industry. The fifty new political divisions.* (Boston: Heath. 1920. Pp. 34. 25c.)

Barker, J. E. *Economic statesmanship.* Second edition. (New York: Dutton. 1920. Pp. xii, 624. $7.)

Bland, A. E., Brown, P. A., Tawney, R. H. *English economic history (select documents).* (New York: Macmillan. 1919. Pp. xx, 730.)

BLONDEL, G. *Impressions d'un récent voyage aux Pays Rhénans.* (Paris: Musée Social, March-April, 1920. Pp. 107.)

BUCK, S. J. *The agrarian crusade; a chronicle of the farmer in politics.* (New Haven: Yale Univ. Press. 1920. Pp. xi, 215.)

COBURN, F. W. *History of Lowell and its people.* (New York: Lewis Hist. Co. 1920.)

LE COUTRE, W. *Die Grundgedanken der deutschen Preispolitik im Weltkriege 1914-1918.* (Berlin: Haude & Spenersche Buchhandlung. 1920. Pp. 117.)

DAVIES, G. R. *National evolution.* (Chicago: McClurg. 1919. Pp. 159.)

DRUM, J. S. *Mexico's business conditions during the first century of her independence.* (San Francisco: J. S. Drum. 1920.)

FISHER, S. *Ottoman land laws; containing the Ottoman land code and later legislation affecting land.* (New York: Oxford Univ. Press. 1920. Pp. 150. $5.65.)

FORD, H. J. *Alexander Hamilton.* (New York: Scribner. 1920. Pp. 381. $2.)

FRANCQUI, E. and HANKAR, F. *Belgium's amazing progress.* (New York: Guaranty Trust Co. 1920. Pp. 10.)

FRANK, T. *An economic history of Rome to the end of the republic.* (Baltimore: Johns Hopkins Press. 1920. Pp. 310. $2.50.)

GHEORGHIU, D. J. *Aperçus sur la situation économique et financière mondiale.* (Paris: Alcan. 1920. Pp. 104. 7.20 fr.)

GLOTZ, G. *Le travail dans la Grèce ancienne.* (Paris: Alcan. 1920. 12 fr.)

GOLDSTEIN, J. M. *Russia: her economic past and future.* (New York: Russian Information Bureau. 1919. Pp. 99.)

GREEN, F. E. *History of the English agricultural labourer, 1870-1920.* (London: King. 1920. 16s.)

HAINISCH, M. *Wirtschaftliches Verhältnisse Deutsch-Oesterreichs.* (Munich: Duncker & Humblot. 1920. Pp. 171.)

HAWORTH, P. R. *The United States in our own times, 1865-1920.* (New York: Scribner. 1920. $2.25.)

VON HERZFELD, M. *Zur Orienthandelspolitik Oesterreichs unter Maria Theresia in der Zeit von 1740-1771.* (Vienna: Alfred Hölder. 1920. Pp. 130.)

HUSSLEIN, J. *Democratic industry. A practical study in social history.* (New York: Kenedy. 1919. Pp. 362. $1.50.)

The title of this book is no index to its subject-matter. Although intended to be an impartial study in social history, the discussion is an incomplete appraisal of the Roman Church as the guardian of

democracy throughout the history of labor from slavery and serfdom down to the era of gilds. The Catholic Middle Ages are described as the Golden Age of labor, the period in which the workers realized for the first and last time in history the true ideals of industrial democracy. This age of superb art, education, and democratic institutions ended with the "abhorrent Reformation," which ushered in the period of capitalism and sordid materialism. Luther and Wyclif are characterized as the bolshevists of their time, whose exploits were followed by land monopoly and industrial slave markets (p. 268). The author is generous enough to admit the historical fact that the Roman Church possessed a plethora of wealth in the form of land. but he absolves the Church from the stain of commercialism by attributing this ownership to the weaknesses of the ecclesiastical lords (pp. 262, 295). In this part of the book the author does not succeed in concealing a manifest religious bias.

The development of a gild system, patterned after the medieval organizations but adjusted to modern conditions, is the panacea proffered to the masses who suffer under modern commercialism to which the Protestant Reformation surrendered them. Bolshevism, socialism, and syndicalism are dismissed summarily as erroneous and destructive expressions of the gild concept. These would threaten private property and religion. The true gild movement can be advanced only by the organization of coöperative enterprises and the establishment of industrial copartnership in which the workers will have not only a share in management but also in earnings.

In tracing the origin of trade unionism to ancient Egypt and Greece the author contradicts the conclusive evidence to the contrary produced by accepted authorities, including the Webbs. Brentano, with whose conclusions the Webbs and others take issue, is accepted by the author as an indisputable authority. The coöperative movement is viewed as a step away from socialism, although as a matter of fact the success of this movement in the United States is due in large measure to the efforts of moderate socialists who see in it a long stride toward the realization of the socialist commonwealth.

GORDON S. WATKINS.

JAMES, G. W. *New Mexico, the land of the delight makers; the history of its ancient cliff dwellings and pueblos, etc.* (Boston: Page Co. 1920. Pp. xxvii, 469, map, 56 plates.)

VON KAURIMSKY, F. *Jugoslavien.* (Berlin: Auswärtiges Amt. 1919. Pp. 48.)

KNIBBS, G. *Local government in Australia.* (Melbourne: Bureau of Census & Statistics. 1919. Pp. 313.)

KOEBEL, W. H. *The great south land.* (New York: Dodd, Mead. 1920. $3.50.)

Depicts conditions as they are in Argentina and Southern Brazil today.

Lederer, E. *Deutschlands Wiederaufbau und weltwirtschaftliche Neueingliederung durch Sozialisierung.* (Tübingen: Mohr. 1920. 7 M.)

La Motte, E. N. *The opium monopoly.* (New York: Macmillan. 1920. Pp. xvii, 84.)

Leubeck, J. *Die wirtschaftliche Entwicklung Bayerns und die Verwaltung von Handel, Industrie und Gewerbe.* (Munich: Duncker & Humblot. 1919. Pp. 200.)

Lovett, W. *The life and struggles of William Lovett, the chartist, by himself.* (London: G. Bell & Sons. 1920.)

Lowie, R. H. *Primitive society.* (New York: Boni & Liveright. 1920. Pp. viii, 463.)

McGovern, W. M. *Modern Japan. Its political, military, and industrial organization.* (New York: Scribner. 1920. Pp. 280. $5.)

Chapters 15-17 treat of the industrial and commercial development of Japan; chapter 11, of imperial socialism. "Japan's industry has been an experiment in coördination as opposed to competition."

Maunier, R. *Manuel bibliographique des sciences sociales et économiques.* (Paris: Giard & Brière. 1920. 20 fr.)

Meyer, E. *Die Vereinigten Staaten von Amerika, ihre Geschichte, Kultur, Verfassung, Politik.* (Frankfort: H. Keller. 1920. Pp. ix, 290.)

Miller, H. H. *Economic conditions in the Philippines.* Revised edition. (Boston: Ginn. 1920. Pp. 476.)

Müller-Lyer, F. *The history of social development.* (London: George Allen & Unwin. 1920. 18s.)

O'Brien, G. *An essay on mediaeval economic teaching.* (New York: Longmans. 1920.)

Perleberg, H. C. *Peruvian textiles; a contribution to our knowledge of the textile industries of the ancient Peruvian people.* (Jersey City, N. J.: Author, 15 E. 40th St. 1920. $22.50.)

Renard, G. and Weulersse, G. *Le travail dans l'Europe moderne.* (Paris: Alcan. 1920. Pp. 524. 12 fr.)

Ricci, U. *Politica ed economia.* (Rome: La Voce. 1919. Pp. 239.)

Ricci, U. *Protezionisti e liberisti italiani.* (Bari: Gius, Laterza & Figli. 1920. Pp. 195.)

Rowe, L. S. *Early effects of the war upon the finance, commerce and industry of Peru.* Preliminary economic studies of the war, no. 17. Carnegie Endowment for International Peace, Division of Economics and History. (New York: Oxford Univ. Press. 1920. Pp. 60.)

RUFENER, L. A. *The economic position of Switzerland during the war.* Bureau of Foreign and Domestic Commerce, Miscellaneous series, no. 90. Economic studies of countries during the war, compiled in the Bureau of Research and Statistics, War Trade Board. (Washington: Supt. Docs. 1919. Pp. 87.)

SOKOLOW, N. *The history of Zionism, 1600-1918.* (New York: Longmans.)

STEARNS, H. E. *Liberalism in America.* (New York: Boni & Liveright. 1919. Pp. 234.)

WEST, W. M. *The story of modern progress, with a preliminary survey of earlier progress.* (Boston: Allyn & Bacon. 1920. Pp. xvi, 701.)

WEST, J. *A short history of the chartist movement.* (London: Constable. 1920.)

WESTERFIELD, R. B. *Early history of American auctions--a chapter in commercial history.* (New Haven: Connecticut Academy of Arts and Sciences. 1920. Pp. 51.)

WILLOUGHBY, W. W. *Foreign rights and interests in China.* (Baltimore: Johns Hopkins Press. 1920. Pp. 594. $7.50.)

Contains chapters on Foreign commerce (pp. 103-106); Inland navigation (pp. 161-168); Patent rights, trademarks, and copyrights and foreign corporations in China (pp. 169-194); Landholding by foreigners in China (pp. 195-207); China's foreign debt (pp. 483-523); Railway loans (pp. 524-568).

WOODHOUSE, E. J. and C. G. *Italy and the Jugoslavs.* (Boston: Badger. 1920. Pp. 394. $3.)

Chapter 10 deals with the economics and politics of the Adriatic question.

YOUNG, G. *New Germany.* (New York: Harcourt, Brace & Howe. 1920. Pp. 333.)

ZOOK, G. F. *A company of royal adventurers trading into Africa.* (Ithaca, N. Y.: Author, Cornell Univ. 1919. Pp. 105.)

American Jewish year book, September 25, 1919, to September 12, 1920. (Philadelphia: Jewish Publication Society of America. 1919. Pp. xii, 894.)

America's merchant marine. A presentation of its history and development to date with chapters on related subjects. (New York: Bankers Trust Co. 1920. Pp. 257.)

The American year book, a record of events and progress, 1919. (New York: Appleton. 1920. Pp. 873. $5.)

Annuaire industriel et financier Tchéco-Slovaque. (Vienna: 3 Drachengasse. 1920.)

Denmark. Agriculture, commerce, finance. (New York: Brown Brothers, 59 Wall St. 1920. Pp. 32.)

The Japan yearbook. (Shanghai: Kelley & Walsh. 1920. $5.)

The new day in North Dakota. Some of the principal laws enacted by the sixteenth legislative assembly, 1919. (Bismarck: Industrial Commission of North Dakota. 1920. Pp. 156.)

Laws are grouped under: state economics and industries; relating to the condition of labor; taxation; and miscellaneous.

New England old and new. (Boston: Old Colony Trust Co. 1920. Pp. 62.)

Other merchants and sea captains of old Boston. (Boston: State Street Trust Co. 1920. Pp. 70.)

The spirit of America as shown by her great documents, 1620-1920. (Boston: Old Colony Trust Co. 1920. Pp. 99.)

The United States; a catalogue of books relating to the history of its various states, counties, and cities. (Cleveland: Arthur H. Clark Co. 1920. Pp. 321.)

Agriculture, Mining, Forestry, and Fisheries

NEW BOOKS

Arnold, R. and Darnell, J. L. *Manual for the oil and gas industry under the revenue act of 1918.* (New York: Wiley. 1920.)

Boeger, E. A. *Rent contracts in typical counties of the wheat belt.* (Washington: Office of Farm Management. 1920. 5c.)

Bosworth, T. O. *Geology of the mid continent oilfields: Kansas, Oklahoma, and North Texas.* (New York: Macmillan. 1920. Pp. 313.)

The author states that his purpose is to give the facts about oil "rather than to theorize as to its origin and accumulation," and upwards of 270 pages are devoted to this end. However, in the last section of the book, Dr. Bosworth discusses the question of the origin of petroleum oils and comes to the conclusion that vegetable matter is their probable source. Some of the leading captions are: Geographical and Geological Situation of the Mid Continent Oil Region, Geological Structure of the Mid Continent Oilfield Region, Geological History of the Oil Bearing Deposits, Stratigraphy and the Oilfields, and Oil Accumulations and their Relation to Geological Structure. Although the subject-matter of the volume is of more interest to the geologist than to the student of economic history the latter will find much of value in the book. Part III contains a brief history of the development of the mid continent oil region, and parts VIII, IX, and X have respectively the titles Character of the Oil, The Natural Gas, and Production of Gasoline from Natural Gas. Most of this has a direct bearing on economic

history. Although the vocabulary of the book is more or less technical, nevertheless the lay reader may pursue it with comfort and understanding. Dr. Bosworth ventures the following prophesy: "Regarding the future it is not to be supposed that this great oil region is yet to decline. There is still considerable undrilled territory similar to that which is producing today. Also, extending westward there is a vast area underlain by the whole Pennsylvanian System at still greater depths; and we need not suppose that the limit of operative depth will stay at 3,000-4,000 feet now, any more than it stayed at 1,000-2,000 feet a few years ago." Deeper drilling, however, involves much greater cost and consequently the fields must be surveyed with greater care if wasteful failures are to be avoided. The author is also of the opinion that there is now the expectation of producing much oil from the formation below the Pennsylvanian, that this formation extends over a large area, and that although it lies deep the next few years will see it extensively exploited. ISAAC LIPPINCOTT.

BROWN, N. C. *Forest products; their manufacture and use.* (New York: Wiley. 1920. Pp. 471. $3.75.)

BURCHARD, E. F. *Cement: with sections on imports and exports in foreign countries.* (Washington: U. S. Geological Survey. 1920 Pp. 66.)

BURCHARD, E. F. *Iron ore, pig iron, and steel.* (Washington: U. S. Geological Survey. 1920. Pp. 61.)

COMBS, S. and BAIN, J. B. *A study of the factors involved in producing milk in North Carolina.* The Bulletin, vol. 41, no. 5. (Raleigh: N. C. Dept. Agri. 1920. Pp. 29.)

COMPTON, W. *Conservation: the form or the substance: which?* (Chicago: National Lumber Manufacturers Assoc. 1920. Pp. 24.)

CROSS, R. *A handbook of petroleum, asphalt and natural gas, methods of analysis, specifications, properties, refining processes, statistics, tables, and bibliography.* Second edition. (Kansas City, Mo.: Kansas City Testing Laboratory, 1013 Grant Ave. 1920. Pp. 496. $5.)

ISE, J. *The United States forest policy.* (New Haven: Yale Univ. Press. 1920. Pp. 395. $5.)

JILLSON, W. R. *The oil and gas resources of Kentucky.* (Frankfort, Ky: Kentucky Geol. Survey. 1919. Pp. 630. 20c.)

JAUNIN, V. *La navigation fluviale et les forces hydrauliques en Suisse.* (Lausanne: La Suisse Economique. 1920.)

KARAJIAN, H. A. *Mineral resources of Armenia and Anatolia.* (New York: Armen Technical Bk. Co. 1920. Pp. 211.)

LOUGHLIN, G. F. *Mineral resources of the United States, 1917: nonmetals.* (Washington: U. S. Geol. Survey. 1920. Pp. 1287.)

LOWE, E. N. *Mississippi, its geology, geography, soil, and mineral resources.* A revision with additions of bulletin no. 12. (Jackson, *Miss.: State Geol. Survey. 1919. Pp. 346.)*

MACKAYE, B. *Employment and natural resources.* (Washington: U. S. Dept. Labor. 1919. Pp. 144.)

NEWELL, F. H. *Water resources, present and future uses.* (New Haven: Yale Univ. Press. 1920. Pp. 330. $4.50.)

PACK, R. W. *The sunset-midway oil field, California.* Part I, *Geology and oil resources.* (Washington: U. S. Geol. Survey. 1920. Pp. 175.)

PANYITY, L. S. *Prospecting for oil and gas.* (New York: Wiley. 1920. Pp. 249. $3.25.)

PEARSON, F. A. *The seasonal cost of milk production.* (Urbana, Ill.: Agri. Ex. Sta. 1919. Pp. 18.)

RADCLIFFE, L. *Fishery industries of the United States; report of the Division of Statistics and Methods of the Fisheries for 1918.* (Washington: Supt. Docs. 1920. Pp. 167.)

REW, SIR R. H. *Food supplies in peace and war.* (London: Longmans. 1920. Pp. 183. $2.25.)

A very sane and reasonable discussion of the food problem, especially of the United Kingdom, during and after the war. Part I, Before the War, gives an account of the food situation at the beginning of the war; Part II, War Time, gives an interesting and somewhat detailed account of British experience in solving the food problem under the submarine menace; Part III, After the War, reviews the lessons of the war and considers the future of the world's food supplies.

In reviewing British wartime experience, only casual mention is made of liquor control as a measure of food conservation. In discussing present conditions of food supply the author is optimistic, partly because of the possibilities of increased production on the present farm areas, but mainly because of the possibilities of further extension of the tillable areas. He also finds excellent reasons for optimism with respect to British agriculture, which is, all things considered, undoubtedly superior to anything to be found on the continent of Europe.

As compared with the larger countries, France, Germany, and Italy, British yields are greater per acre and per man, for all the principal cereals and for potatoes, while Great Britain carries considerably more livestock per thousand acres. As compared with the smaller countries, Belgium, Holland, and Denmark, British yields per acre are slightly less, but the product per man is distinctly greater. "In the United Kingdom 115 agriculturalists per 1,000 acres of arable land were employed, whereas in Belgium 218, and in Holland 280 were required to secure a not very much greater return" (p. 139).

T. N. CARVER.

SCHMIDT, L. B. *Topical studies and references on the economic history of American agriculture.* (Philadelphia: McKinley Pub. Co. *1919. Pp. 94.)*

SHANAHAN, E. W. *Animal food-stuffs. Their production and consumption with a special reference to the British Empire.* (London: Routledge; New York: Dutton. 1920. Pp. 331.)

The author has collected a considerable mass of information from a great variety of sources, notably from the bulletins of the United States Department of Agriculture. The material is not as well digested as could be desired. Consequently the book is not as readable as it is possible to make such a book. Most of the statements are supported by satisfactory citations; but the author has allowed himself the privilege of a good many statements of opinion which are of doubtful validity. For example: "Maize, except in Mexico, Italy and certain Southern States in America, is produced and enters into international trade almost entirely as animal feedstuffs" (p. 2). This overlooks its use in the production of alcoholic drinks, besides minimizing its use in human food in various forms.

Again, speaking of Canada, "Neither have the fertile prairie lands been taken up and cropped to exhaustion so quickly as they were south of the International frontier" (p 50). This is a common European mistake concerning our western farm lands. This erroneous opinion is probably due to the migration of the wheat belt westward to newer lands which a foreigner assumes to be due to the exhaustion of the soil in the Middle West. It is, on the contrary, due to the farmer's preference for better crops than wheat—that is, more heavy yielding crops. Wheat farming is well adapted to frontier conditions. It does not respond to intensive cultivation so well as maize and many other crops. It is suited to conditions where there is much land and little labor. Besides, it stands transportation better than almost any other farm crop. In the territorial division of labor, therefore, it is natural that it should be grown largely on frontier lands at a considerable distance from markets, while crops of greater bulk should be grown nearer the centers of consumption. In addition to all this, the crops that respond more vigorously to intensive cultivation are better suited to more densely populated areas. There is no evidence of the exhaustion of the rich prairie lands of our upper Mississippi valley.

Again, "It is also to be observed that the urban industrial worker, whose work tends to be both monotonous and sedentary, requires a more varied and richer diet to maintain health and efficiency than the agricultural worker does" (p. 235). Whether this, its direct opposite, or something halfway between, is true has never been satisfactorily demonstrated.

Again, on page 251, "A decline in the birth-rate, even if the rate of infant mortality is at the same time somewhat lowered, raises the average age, while a decline in the death-rate, unless confined to infants and children, which in actual experience is not the case,

also raises the average by sparing to older years those who would otherwise have disappeared from the population." It appears to the reviewer, first, that even if a decline in the death-rate is confined to infants and children, unless we mean very young children, it raises the average age of the population; second, that in actual experience it is the case that the decline in the death-rate is chiefly among infants and children, and to a very slight degree among people who have passed middle age. Aside from a considerable number of such statements, the book appears to be reliable—at least the reader is given the authorities, in the form of numerous footnotes, for most of the statements made.

T. N. CARVER.

SPENCE, T., OGILVIE, W. and PAINE, T. *Pioneers of land reform.* (London: G. Bell & Sons. 1920.)

WANLASS, W. L. *The United States Department of Agriculture. A study in administration.* Johns Hopkins University studies in historical and political science, series XXXVIII, no. 1. (Baltimore: Johns Hopkins Press. 1920. Pp. 128.)

WOOLSEY, T. S., JR. *Studies in French forestry.* (New York: Wiley. 1920.)

Fisheries statistics, 1918. Census of industry, 1918. (Ottawa: Bureau of Statistics. 1920. Pp. xxxiii, 119, xxxiii.)

Forest devastation. A national danger and a plan to meet it. Submitted for consideration to the Society of American Foresters by the Committee for the Application of Forestry. (Washington: Soc. Am. Foresters. 1919. Pp. 37.)

The Jewish Agricultural and Industrial Aid Society annual report for the year 1919. (New York: 174 Second Ave. 1920. Pp. 53.)

Summarizes the growth of agricultural enterprise by Jewish farmers in the United States since 1900. Estimated that now there are over 7,000 Jewish farming families, holding 1,000,000 acres, valued at $50,000,000. The loaning policy is described, covering operations in 36 states.

National survey of the economic status of the horse. (Detroit: Green, Fulton, Cunningham Co. 1920. Pp. 130.)

Petroleum. A selected list for the investor and geologist, and the chemist. (St. Paul, Minn.: Public Library. 1920. Pp. 5.)

Royal Commission on Agriculture. Minutes of evidence, August 5-November 5, 1919. (London: Wyman. 1920.)

Manufacturing Industries

NEW BOOKS

MORAL, F. *Die Abschätzung des Wertes industrieller Unternehmungen.* (Berlin: Springer. 1920. Pp. viii, 149.)

Rawlley, R. C. *Economics of the silk industry.* (London: King. 1920. 10s. 6d.)

Emery's charts and maps; showing growth and distribution of United States manufactures. (Chicago: Emery Bros., 6815 Harper Ave. 1106 blueprints. $100.)

Facts and figures of the automobile industry, 1920. (New York: National Automobile Chamber of Commerce, 30 Madison Ave. 1920. Pp. 96.)

Materials in shoes. (Boston: Retail Shoe Salesmen's Institute. 1920. Pp. 190.)

Proceedings of the fourth industrial safety congress of New York state, December, 1919. (Albany: Bureau of Statistics and Information. 1920. Pp. 242.)

Two related industries: an account of paper-making and of paper-makers' felts as manufactured at the Kenwood Mills, Rensselaer, New York. (Albany: F. C. Huyck & Sons. 1920. Pp. xiii, 78.)

Transportation and Communication

A History of the Atlantic Coast Line Railroad. By Howard Douglas Dozier. (Boston: Houghton Mifflin Company. 1920. Pp. xi, 197. $2.00.)

In the earlier chapters of this book the author traces the development of the short lines which were later consolidated into the Atlantic Coast Line System. Something less than half the volume is devoted to a study of the growth since the Civil War, including a chapter on integrations and consolidations.

The student will find in this volume an important contribution to the economic literature of the country, not only because it adds to our knowledge of railway history but because it contains as a background a good discussion of the industrial development of the country through which the lines were built. The expansion of the important lines is presented in detail. The application of steam to transportation, of course, wrought a great change not only in the industrial development of the southeastern portion of the United States, but also upon the direction of the channels of trade. The north and south currents became more important and water transportation both by canal and river declined. Towns situated at the head of navigation became active trade centers and critical points in the construction of railroads. Owing to their location they were able to take advantage of the new methods of transportation. In the course of time the prospective advantages

of continuous travel made it necessary to unite the many short lines into a continuous system.

Professor Dozier lays much stress on the rivalry of growing towns and cities in the South as a cause in the development of railroads. This cause has been in evidence everywhere in the United States as one of the great stimulating factors in inaugurating communication enterprises of all kinds. Questions of chartering, operation, and methods of construction are discussed in sufficient detail to give the student a good idea of the conditions under which the roads were brought into existence and operated throughout the earlier years of their history. Many of the evils complained of in later years of railroad operation made their appearance before 1860 in some of the lines which were to become the Atlantic Coast Line System. Thus were raised the questions of rates on long and short hauls, the effect of water competition on railway rates, and the use of passes as a reward for past favors and of securing new ones. Higher charges for short than for long hauls were justified at that time on the basis that "frequently the regular through train could not carry all the produce and it was necessary to run a train empty from Wilmington to within a short distance of Weldon, and receive pay for the last thirty miles only." When shippers along the main lines complained that farmers or merchants on the feeders were obtaining lower rates the railroad officials replied that "the carrying of additional freight and passengers attracted from territory which would not have patronized the road otherwise cost very little more and the income was almost clear gain. This gain could be applied to paying dividends and operating expenses and local rates thereby reduced."

According to Professor Dozier, the integration of the Atlantic Coast Line roads reveals practically every phase of railway development elsewhere in the United States except cut-throat competition. The absence of that feature was due in large measure to the destruction wrought by the Civil War from which southern roads made slow recovery, and to the unfortunate results of the panic of 1873. The retarding of southern railway development due to these causes enabled the South to escape many of the evils of cut-throat competition and the rate wars of the late seventies and eighties. Profiting by the experience of the northern and western roads they were spared many of the evils of high finance, with the result that there is nothing in the history of the Atlantic

Coast Line System comparable to the practices outlined by Mr. Charles Francis Adams in his *A Chapter of Erie.* Professor Dozier's volume is well documented and is provided with maps and tables to illustrate the development of the Coast Line railroads.

Isaac Lippincott.

Washington University.

NEW BOOKS

Acworth, W. M. *Historical sketch of state railway ownership.* (London: John Murray. 1920. 3s. 6d.)

Bradley, G. D. *The story of the Santa Fe.* (Boston: Badger. 1920. Pp. 288. $3.)

Emerson, H. *The railroad situation. Why 30 per cent rate increase is not enough.* (New York: Emerson Engineers, 30 Church St. 1920. Pp. 47.)

Giese, K. *Das Seefrachttarifwesen.* (Berlin: Springer. 1919. Pp. xvi, 379.)

Huebner, G. G. *Ocean steamship traffic management.* (New York: Appleton. 1920. Pp. xv, 273. $3.)

A clear and systematic statement of the technical side of ocean traffic procedure. The three parts cover the traffic organization of ocean shipping, ocean shipping documents, and ocean rates and regulation. Among the topics discussed are the organization of the freight traffic department of a steamship line, freight brokerage, rate and traffic agreements, freight forwarding business, and government regulation of ocean rates and services. There are some eighty different forms inserted, also charts. The material is exceptionally well arranged.

Lee, E. *Some human factors in railroad earning power.* (Philadelphia: Pennsylvania System. 1920. Pp. 12.)

Mackley, A. R. *An outline of federal rate regulation.* (Washington: Author. 1919. Pp. 96.)

Northrop, C. B. *Reparation under commerce act.* (Washington: B. S. Adams. 1920. Pp. 156.)

Ogilvie, P. M. *International waterways. I. Evolution of the principle of international waterways. II. Reference-manual to the treaties, conventions, laws, and other fundamental acts governing the inter-use of inland waterways.* (New York: Macmillan. 1920. Pp. 424. $3.)

Prouty, C. A. *Address before the Associated Industries of Massachusetts, Boston, February 2, 1920.* (Washington: Bureau of Railway Economics. 1920. Pp. 38.)

RUSH, T. E. *The port of New York.* (Garden City, N. Y.: Doubleday, Page. 1920. Pp. 361. $3.50.)

SABIN, E. L. *Building the Pacific Railway.* (Philadelphia: Lippincott. 1919. Pp. 317.)

SAKOLSKI, A. M. *Railroad situation in the light of the new legislation.* (New York: Equitable Trust Co. 1920. Pp. 3.)

SEYDEL, J. *Die Organisation der preussischen Staatseisenbahnen bis zum Kriegsausbruch.* (Berlin: Springer. 1919. Pp. 67.)

VANDERBLUE, H. B. *Railroad valuation by the Interstate Commerce Commission.* (Cambridge: Harvard Univ. Press. 1920. Pp. 119.)

VINSON, T. *Reorganization of the railways.* (Washington: J. Byrne, 715 14th St. 1920. Pp. 252. $1.)

America's merchant marine; a presentation of its history and development to date. (New York: Bankers Trust Co. 1920. Pp. 257.)

National freight traffic manual; foreign trade; ocean transportation; maritime terms. Second edition. (New York: Foreign-American Shipping Corp., 11 Broadway. 1919. Pp. 320. $7.50.)

The new railroad legislation and railroad securities, with special reference to the Chicago, Rock Island & Pacific Railway. (New York: Hartshorne & Battelle, 25 Broad St. 1920. Pp. 15.)

Parcel post statistics. (Washington: Supt. Docs. 1920. Pp. 59.)

Trade, Commerce, and Commercial Crises

International Commerce and Reconstruction. By ELISHA M. FRIEDMAN. (New York: Dutton. 1920. Pp. xi, 432. $5.)

Mr. Friedman's volume deals chiefly with the conditions of foreign trade before and during the war, and with the proposals which have been made in the various countries for dealing with the after-the-war situation. Copious extracts are given from official reports and documents, and from the writings of various individuals, showing the trend of opinion. An appendix gives the text of important documents; among these are the Paris Resolutions of 1916, the Official Report (December, 1917) of the British Committee on Commercial and Industrial Policy after the War, the Covenant of the League of Nations, and the Economic and Related Clauses of the Treaty with Germany. Statistical tables show the imports and exports of the several countries before the war and during the war.

It will be seen that here is material of much value. Of necessity it is largely provisional material. The world is far from having

settled down. International politics and international trade are in a stage of transition. Much that is contained in this volume will fast become obsolete, and indeed some is already obsolete. The Paris Resolutions of 1916 may safely be said to be a dead letter. None the less the student will turn with interest to this helpful collection, and will find in it much that would otherwise be difficult of access.

Mr. Friedman's own position is stated in the first chapter. He points out the present need of an extension of credits by the United States, both in order that aid may be given to European countries and in order that this country's transition from war conditions to those of peace may be made easier. As concerns the permanent course of events, he believes that imminent tendencies in economic development push this country toward an extension of exports and an increasing importance of international trade, and that our fiscal and commercial policy should be framed with reference to this future. In one passage he quotes with approval List's theory of the four periods of the economic development of nations, and seems to think that the ideal international relations can only be reached when a large number of countries have reached the same stage of industry, civilization, and power. The same view is expressed in a concluding passage, which runs as follows:

> In a more than superficial sense the war has prepared the world for an inevitable League of Nations. A degree of development, more uniform at the present time than at any other time in history, makes possible its formation. As the backward countries of the world become more industrialized, as the density of their populations tends to increase by migration, the economic dominance of Europe will probably decline still further but the interdependence of the nations of the world will increase. The process of economic decentralization will prepare for a truer political federalism. Nations commercially interdependent and politically independent alone can constitute a League of Nations.

For myself, I am skeptical about standardized or uniform laws of economic development; and I am not convinced that a League of Nations is possible only between nations commercially interdependent in the sense here intimated. But these are matters of speculation, on which the reader will exercise his own judgment.

F. W. Taussig.

Harvard University.

NEW BOOKS

Ainscough, T. M. *Report on the conditions and prospects of British trade in India at the close of the war.* (London: Wyman. 1920. 2s.)

Austin, O. P. *Trading with our neighbors in the Caribbean.* (New York: National City Bank. 1920. Pp. 63.)

Denjean, F. *Le commerce russe et le révolution.* (Paris: Payot. 1920. 5 fr.)

Dix, A. *Wirtschaftskrieg und Kriegswirtschaft.* (Berlin: Mittler. 1920. Pp. vi, 369.)

Dudeney, F. M. *The exporter's handbook and glossary.* (London: Putnam. 1920. Pp. 254. 6s.)

Ford, T. F. and L. C. *The foreign trade of the United States.* (New York: Scribner. 1920. Pp. xiv, 325. $3.)

von Gernet, B. *Die Entwicklung des Rigger Handels und Verkehrs im Laufe der letzten 50 Jahre bis zum Ausbruche des Weltkrieges.* (Jena: Fischer. 1920. Pp. ix, 168.)

Henius, F. *The A B C of foreign trade.* (Indianapolis: Bobbs-Merrill. 1920. $2.50.)

Loinberger, I. H. *Commercial crises; a discussion of the present economic situation and the origin of crises.* (St. Louis: American Credit-Indemnity Co. 1920. Pp. 131.)

McHugh, J. *A plan for the financing of America's foreign trade.* (New York: Author, Am. Bankers Assoc. 1920. Pp. 14.)

Meyer, E., Jr. *Address on the foreign trade outlook to the Industrial Club of Chicago.* (Chicago: Industrial Club. 1920. Pp. 18.)

Moles, O. C. *Foreign laws and regulations affecting the export of American leather.* (New York: Tanners' Council. 1920.)

Morel, E. D. *Red rubber. A story of the rubber slave trade on the Congo.* Revised edition. (New York: Huebsch. 1919. Pp. 225. $1.25.)

Plaut, T. *England auf dem Wege zum Industrieschutz. Schlüsselindustrien und Handelspolitik.* (Hamburg: Braunschweig. 1919. Pp. viii, 104.)

Pratt, E. E. *Foreign trade; a review of the economics of foreign trade in its relation to the individual trade.* Second edition. (New York: Business Training Corp., 185 Madison Ave. 12 vols. $55.)

Preciado, A. A. *Exporting to the world.* (New York: McCann. $5.)

Rhea, F. *Far eastern markets for railway materials, equipment and supplies.* (Shanghai: Kelley & Walsh. 1920. $1.)

ROBERTS, G. E. *The function of imports in our foreign trade.* (New York: National City Bank. 1920. Pp. 12.)

VANDERLIP, F. A. and WILLIAMS, J. H. *The future of our foreign trade.* (Beechwood, Scarborough on Hudson, N. Y.: Authors. 1920. Pp. 44.)

A study of our international trade balance in 1919. The topics treated are: merchandise, gold, export of capital, shipping, interest payments on capital, immigrants' remittances, balance of international payments.

VON WILLSEN. *Begriff und Wesen des Wirtschaftskrieges.* (Jena: Fischer. 1919 Pp. 62.)

Foreign trade survey, our share—how to get it. (Chicago: Mississippi Valley Assoc. 10 S. La Salle St. 1920. Pp. 28.)

The import and export schedule of France. Bureau of Foreign and Domestic Commerce, miscellaneous series no. 102. (Washington: Supt. Docs. 1920. 10c.)

The traffic library. (Chicago: Am. Commerce Assoc. 1919. 5 vols.)

Statement of Julius H. Barnes, United States Wheat Director. (Chicago: Trade Conference. 1920. Pp. 11.)

Report on the trade in imports and exports at Irish ports during the year ended December 31, 1918. (Dublin: H. M. Stationery Office. 1920. 9d.)

Accounting, Business Methods, Investments, and the Exchanges

NEW BOOKS

BAFF, W. E. *Inventions. Their development, purchase, and sale.* (New York: Van Nostrand. 1920. Pp. 240. $2.)

BLAKEY, R. G., editor. *The new American thrift.* (Philadelphia: Am. Acad. Pol. & Soc Sci.. 1920. Pp. 248.)

BUSH, C. H. *Applied business law.* (New York: Holt. 1920. Pp. viii, 244. $1.28.)

COLLINS, A. F. *Putnam's handbook of buying and selling; telling in a simple and practical way how to succeed in business.* (New York: Putnams. 1920. Pp. xi, 302. $1.90.)

DURSTINE, R. S. *Making advertisements and making them pay.* (New York: Scribner. 1920. $3.50.)

FARLEY, J. W. *Statistics and politics.* Second edition. (Memphis, Tenn.: Saxland Pub. Co. 1920. Pp. 55.)

GOLDMAN, O. B. *Financial engineering.* (New York: Wiley. 1920.)

HAMILTON, G. F. and others. *Retail shoe salesmanship.* (Boston:

Retail Shoe Salesman's Institute, 727 Atlantic Ave. 1920. Pp. 197. $2.)

HARTMAN, H. H. *Fair value. The meaning and application of the term "fair valuation" as used by utility commissions.* (Boston: Houghton Mifflin. 1920. Pp. 263. $2.50.)

HAWKINS, N. A. *The selling process.* (Boston: E. M. Dunbar, 15 Rowena St. 1920. $3.25.)

HOLMES, C. B. *Metal-mine accounting.* Bureau of Mines, technical paper 250. (Washington: Supt. Docs. 1920. Pp. 63.)

HUEBNER, S. S., editor. *Bonds and the bond market.* (Philadelphia: Am. Acad. Pol. & Soc. Sci. 1920. Pp. 223.)

JORDAN, D. F. *Investments.* (New York: Prentice-Hall. 1920. Pp. 423.)

KELLY, F. C. *Business profits and human nature; how to increase the first by knowledge of the second.* (New York: Putnams. 1920. Pp. ix, 279. $1.95.)

KNOEPPEL, C. E. *Graphic production control.* (New York: Engg. Mag. Co. 1920. Pp. xxiii, 477.)

LITTLETON, A. C. *An introduction to elementary accounting with a program of study and practice assignments.* (Cincinnati: Southwestern Pub., 309 W. 3d St. 1919. Pp. 64.)

MEES, C. E. K. *Organization of industrial scientific research.* (New York: McGraw-Hill Bk. Co. 1920. Pp. 175.)

MILLER, A. H. *Leadership; a study and discussion of the qualities most to be desired in an officer.* (New York: Putnam. 1920. Pp. xv, 174. $1.50.)

PERKINS, E. A. *Philippine business law (adapted from Sullivan's "American business law") with legal forms.* (New York: Appleton; Manila: Lawyers Coöperative Pub. Co. 1920. Pp. 491.)

POOR, W. *American law of charter parties and ocean bills of lading.* (Albany: Bendor. 1920. Pp. 273. $5.50.)

REDMAYNE, R. A. S. *The valuation of mineral property.* (New York: Longmans. 1920.)

ROBERTSON, J. *Dictionary for computing international commercial quotations.* (New York: Oxford Univ. Press. 1920. Pp. 218. $38.)

SELDEN, G. C. *The machinery of Wall Street; why it exists, how it works and what it accomplishes.* (New York: Mag. Wall St. 1919. Pp. 170.)

STIPP, W. E. *The essentials of commercial law, prepared for the use of schools and colleges.* (Battle Creek, Mich.: Ellis Pub. Co. Pp. vii, 193.)

Tead, O. and Metcalf, H. C. *Personnel administration.* (New York: McGraw-Hill. 1920. Pp. 520. $5.)

Tipper, H. and others. *The principles of advertising.* (New York: Ronald. 1920. Pp. 376.)

Vinal, E. R. *Mathematics for the accountant.* (New York: Biddle Pub. Co. 1920. Pp. xvi, 172.)

Industrial administration; a series of lectures. Publications of the University of Manchester. (New York: Longmans. 1920. Pp. 202. $3.)

Industrial manual, 1919-1920. (Bridgeport, Conn.: Bridgeport Brass Co. 1920. Pp. 151.)

Operating accounts for retail drug stores. (Cambridge, Mass.: Harvard University, Bureau of Business Research. 1920. Pp. 62. $1.)

Operating expenses in retail grocery stores in 1919. (Cambridge, Mass.: Harvard University, Bureau of Business Research. 1920. Pp. 16. $1.)

Railway Accounting Officers Association commodity classification. (Washington: Assoc., 1116 Woodward Bldg. 1920. Pp. 135. $1.)

Salesmanship; a selected list of books in the library. (St. Paul, Minn.: Public Library. 1920. Pp. 7.)

Securities prices as of December 31, 1918, compiled for and under the supervision of the comptroller of the state of New York. (New York: Standard Statistics Co. 1920. Pp. 288.)

The sellers and the buyers; answering six thousand questions the sellers of merchandise must know for greater success. (Newark, N. J.: Industrial Service Bureau. 1920. Pp. 64.)

Underwritings and original offerings: stocks, bonds, notes and equipment trusts covering the period from January 1, 1917, to December 31, 1919. (New York: Financial Statistics Service. 1920. Pp. 145.)

Report of the committee on uniform accounting. (New York: Nat. Board of Fire Underwriters. 1920. Pp. 5.)

Capital and Capitalistic Organization

NEW BOOKS

Bonbright, J. C. *The basis of railroad capitalization.* (New York: Acad. Pol. Sci. 1920. Pp. 53. $1.)

Carter, J. T. *The nature of the corporation as a legal entity, with special reference to Maryland.* (Baltimore, M. Curlander. 1919. Pp. xv, 239.)

Clark, H. C. *Service at cost plans.* (New York: Am. Elec. Ry. Assoc. 1920. Pp. 315. $2.50.)

KOINER, C. W. *History of Pasadena's municipal light and power plant.* (Pasadena: Munic. Prtg. Dept. 1920. Pp. 32.)

WITHERS, H. *The case for capitalism.* (London: Nash. 1920. Pp. 255. 7s.)

Kansas City street railway situation. (Kansas City, Mo.: Chamber of Commerce. 1920. Pp. 48.)

Labor and Labor Organizations

Labor's Challenge to the Social Order. By JOHN GRAHAM BROOKS. (New York: The Macmillan Company. 1920. Pp. vi, 441. $2.75.)

We have learned to expect incisive and informing discussions of American labor problems from the author of *As Others See Us*, *The Social Unrest*, and *American Syndicalism*, but the present book is more than a suggestive survey of the after-the-war labor situation. It is a stimulating and penetrating appreciation of the latest developments in the labor field on the background of Mr. Brooks's forty years' study of the upward movement of wage-earners throughout the world.

Like his other books, it is a human document rather than a dogmatic treatise. Conclusions are rarely stated didactically. Instead they reveal themselves in the author's skillful descriptions and analyses of the aims and accomplishments of the different groups which articulate "labor's challenge" and seek to substitute a better for the present "social order."

Considered merely as an accurate and absorbingly interesting record of recent developments in the labor field, the book merits the widest circulation. Its range is indicated by the more important chapter headings. Following a preliminary survey of current tendencies in The Quest, A New Society, and World Lessons, the book emphasizes certain contrasts in The Struggle at its Worst, The Inner Revolution, and Capital on Its Good Behavior. Analysis then begins with What Does Labor Want Anyhow? Who Shall Spend My Savings? and How Long-Shall We Work? which are interspersed with suggestive descriptive chapters on Lessons from the Communists, Socialism, Government Ownership, and Industrial Democracy at its Best (*i.e.*, coöperation). On the solid foundation thus laid, the author bases a thoughtful appraisal of Labor's Training for the Present Crisis. He then does full justice to The Employers' Case against the Union and to The New Profit Sharing. A critical analysis of Syndicalism

leads up to a sympathetic account of The New Guild. The final chapter, The Greater Task, restates with the reënforcement of effective quotations some of his more important conclusions.

It is these conclusions that make the book something more than a valuable record of recent labor events. They entitle it to a place among the important recent constructive contributions to economic literature. At the risk of seeming to ascribe dogmatic opinions to an author whose greatest merit is freedom from any trace of dogmatism, I must attempt to summarize them.

Foremost is recognition of the immense value of education in practical democracy that comes from the efforts of wage-earners to better their situation. Trade unionists, socialists, and coöperators, "the three most powerful labor groups," are all learning by doing how to secure effective leadership and effective joint action where common interests are at stake. This education has already taught wage-earners to understand the value and limitations of such democratic devices as the initiative, the referendum, and the recall. It has made them critical of the demagogue and appreciative of the honest and able executive. It is preparing them for widening participation in the responsibilities of industry.

Since these constructive movements are providing this indispensable education, a second conclusion is that no social policy could be more suicidal than one that would attempt to suppress trade unionism, socialism, or coöperation. In the author's view, "The Social Order is threatened on two sides: by a raw communism, and by a reactionary capitalism." The best protection against these extremes, he thinks, is the constructive leadership which must inevitably result from the efforts of trade unionists, socialists, and coöperators to realize their respective programs. As they succeed, these movements are bound to become conservative. By allowing them free scope, we may secure progress through experimentation and avoid the disastrous consequences of violent revolution. "It is these agencies which offer the possessing classes their chance."

In desiring to "offer the possessing classes their chance," the author indicates a third conclusion. Despite the evils and abuses that have been associated with it, he is persuaded that the institution of private property should and will survive not merely as concerns consumable wealth but as regards many of the means and agencies of production. He shows that this is the conclusion even of working as contrasted with dogmatic socialism.

Another significant view is that the future politically and industrially will belong in all countries to labor. If the "possessing classes" survive, as he thinks they will, it will be not because they retain their dominant position, but because the representatives of labor learn by experience that the incentives of ownership and returns from ownership cannot be dispensed with without loss to wage-earners as well as capitalists.

For Mr. Brooks entertains no illusions about the difficulties that will confront labor when it is charged with responsibility for keeping production efficient. With warm sympathy with so-called "radical" aspirations, he combines full knowledge of the inefficiencies of government ownership and operation. Appreciating the limitations of political control, he is more hopeful of the future of guild than of state socialism. But as to both, his reiterated opinion is that only experimentation can demonstrate what limits are desirable. That in the long run a substantial place will be left for private ownership, and operation of industry is, as already indicated, his personal expectation.

This bare statement of conclusions does such scant justice to the author's own method of presenting his views that I must end with a few quotations. In an early chapter he indicates his mental attitude toward proposed changes thus:

> No one—except youthful iconoclasts—knows with any precision how society is to develop; what form it will take or what names will fit it best. From temperamental preference, we may feel and express strong opinions on the society that is to be as we swing between conservative and radical extremes. But the future is so far hidden from us: the conceivable alternatives are so many, that allowance must be made for industrial and political unfoldings very different from those on which we happen severally to have set our hearts. . . . It is because we have no certainty . . . that ways must be kept open for well nigh infinite experiment (p. 108).

Later he remarks: "We are deluged with advice about the workman's need of education. It is excellent counsel for labor needs it, but for the unavoidable changes before us, the employer and the rest of us need it quite as much" (p. 112).

Condemnation of all policies of suppression he voices as follows:

> It must be our one reply to radical protests of every sort,—"You shall have the fairest chance to speak out what is in you and the largest opportunity which social cohesion permits to state your case and to try out your scheme before all men." In spite of inherent defects of socialist theory and practice, it is criminal to shut the door on further tentative trial of it. These "socializers of the three rents"

may be nearer right than their individualist opponents. They have proved already that parts of their program are strictly in line with progressive society. Because of our ignorance we should take the risks of further trial. (Pp. 418-419.)

Labor's Challenge to the Social Order is a notable signpost pointing the path to "the ways of peace and good will among men." No one can read it without realizing how momentous are the social choices before us nor being strengthened in the belief that with teachers like John Graham Brooks to guide, they will be wisely made.

HENRY R. SEAGER.

Columbia University.

The Labor Market. By DON D. LESCOHIER. (New York: The Macmillan Company. 1919. Pp. xii, 338. $2.25.)

Professor Lescohier, of the University of Wisconsin, aims to prove the necessity for national machinery for the control of the problem of employment and to furnish information of value both to students and to employment office managers. His book is a concrete and positive study of American conditions. Beveridge's work on *Unemployment* is taken as the foundation upon which all subsequent writers have builded and the endeavor is to study American conditions with the same scientific spirit that Beveridge has used in his study of the British field. Professor Lescohier was formerly superintendent of the Minnesota Public Employment Office and also chief statistician of the Minnesota Department of Labor and Industry and so has had unusual opportunities for a practical study of the problems.

Part one, Supply and Demand Factors in the Labor Market, is a presentation of the facts of the problem and a statement of the causes of unemployment. The fact of unemployment even in prosperous times cannot be gainsaid. The American employer has been able to assume as a matter of course that there would be idle men at his gate this morning, tomorrow morning, every morning. He has accepted orders upon the security of that expectation. Although war conditions may have mitigated the situation somewhat, the time for indifference has passed.

American employers and the American government are being held responsible in the minds of the workers for the hardships which they suffer through irregular employment. . . . The maintenance of a labor reserve for each establishment, or at least in each locality, that is adequate to meet the employers' needs at times of normal maxi-

mum production, but is idle much of the year, is one of the principal causes of industrial unrest and bitterness. We recognize fully that many workers are idle through their own fault, but that fact does not excuse the policy of decentralized labor reserves.

The problem to be solved is the creation of means for feeding a decentralized demand for labor into a centralized organization able to locate the individual workman suited to each individual demand. The causes of unemployment both individual and social are analyzed at length. The remedies proposed for the mitigation of occupational idleness are stabilization of production, dovetailing of establishment demands, conservation of labor efficiency, and relief work.

Part two, the Machinery of the Labor Market, takes up in seven chapters the labor market before the war, development of public employment exchanges, the war and the employment market, the United States employment service, lessons from the British and Canadian employment systems, a federal employment service, and the employment department. Dr. Lescohier urges very strongly the elimination of the private employment office and in this connection says:

> Some able employment men believe that we should depend upon the slow processes of competition to eliminate these private offices. The writer does not agree with them. He considers it unsound in principle to compel a citizen to pay for a chance to get work, while he knows that the influence of these offices is pernicious.

The plan proposed is federal-state-municipal coöperation held together by federal subsidies. Against a straight federal service, it is urged that the employment problem is and should be in the first instance a local problem. The ideal system is one in which the control and direction of the service rests in the federal government, and federal funds bear much of the expense, but in which, through a substantial contribution to the cost of the service and participation in the management of the service, the local viewpoint is emphasized and given proper weight.

Part three, Special Problems of Employment, includes chapters on the laborer and farm labor, together with a comparatively short chapter on unemployment insurance. The latter subject is mentioned only because it forms an integral part of the general problem of employment and unemployment. The laborer is discussed from two points of view: first, in connection with a classification based upon variations in skill and technical knowledge; second,

in connection with a classification based upon the degree of steadiness of different laborers in their employments.

The statements concerning the "professional casual laborer" are of considerable interest, and especially the conclusion that a man becomes a casual laborer when he acquires the casual state of mind. The extreme type of casual never seeks more than a day's work. One evil connected with casuals is that they are overpaid on part of their jobs and the conclusion is that so long as society makes it easy for a man to earn a living by casual labor we must expect a continuing crop of casuals.

The farm labor problem is described as including the farmer's labor problem and also the farm hand's problem. Each side must be considered. Types of farm labor demand, crop diversification and labor demand, and factors influencing labor demand are discussed at length. The essential peculiarity of farm labor demand is found in the vast extent of the country which makes uniform labor conditions impossible. Local peculiarities in some dozen different states are described. The placing of farm laborers is perhaps more difficult than that of any other kind of laborers but "Minnesota's experience in her wartime farm labor office," says the author, "demonstrated that intelligent farm labor placement can be done by an employment office." The farm laborer lives with his employer and for that reason the question is not merely one of wages and hours.

The book is an authoritative and constructive study of an important question; and its essential merit lies in the fact that it is based on experience. The general aspects of the question, however, are not neglected and the bibliography and references show that the subject has been studied as a whole.

George M. Janes.

Washington and Jefferson College.

NEW BOOKS

Baker, R. S. *The new industrial unrest: reasons and remedies.* (Garden City, N. Y.: Doubleday, Page. 1920. Pp. 231.

Beard, M. *A short history of the American labor movement.* (New York: Harcourt, Brace & Howe. 1920. Pp. 174.)

Bloomfield, D. *Problems of labor. Selected articles.* (New York: H. W. Wilson Co. 1920. Pp. 436. $1.80.)

Reprinted articles arranged under general headings: Causes of

friction and unrest; Cost of living; Methods of compensation; Hours of work; Tenure of employment; Trade unionism; Labor disputes and adjustments; Limitation of output; Industrial insurance; Housing; Methods of promoting industrial peace; Occupational hygiene; and Women in industry. Extracts are taken from recent literature.

Cole, G. D. H. *Labour in the commonwealth.* (New York: Huebsch. 1919. Pp. 223. $1.50.)

The entire discussion is based upon the assumption that the present order functions primarily in behalf of the privileged few and does not conduce to the freedom and well-being of the entire commonwealth. Beginning with an emphatic denial of the validity of the commodity theory of labor and a plea for the humanity concept, the author assails the whole range of educational, political, and economic institutions on the grounds that they give to only a few persons the opportunity for the full enjoyment of the rights and privileges of citizenship and abandon the majority to industrial subordination.

Of particular interest is Professor Cole's analysis of the state. He avoids very carefully the mistake which is so often made of confusing the state and the commonwealth as a single entity. To him the commonwealth is the all-inclusive association of citizens, while the state is merely the political machinery through which the common will is expressed. The author's paraphrase that the state exists for the commonwealth and not the commonwealth for the state is very opportune in these days of social reconstruction. There is a great deal of truth in his conclusion that the modern state is primarily the political expression of the economic power of the dominant economic class. He might have added, however, that this is as true of proletarian Russia as it is of bourgeois commonwealths.

Since the fundamental power in any commonwealth is economic, the author is convinced that complete emancipation for the working class is possible only through the conquest of economic power. Here, however, he does not share the conviction of the industrial unionists and the communists that the political state will be unnecessary under socialism. He believes that the political state is always necessary to perform the non-economic functions of the commonwealth, while there must be industrial organizations, such as national guilds, to perform the economic functions. Joint agreements between these two "parliaments" will be sufficient to safeguard the interests of citizens as consumers and producers. This will be recognized as the ideal of guild socialism, which the author sponsors. To achieve this ideal the guild socialists seek to democratize the present political state, and to organize the workers into industrial unions for the final conquest of economic power.

Gordon S. Watkins.

Crowther, S. *Why men strike.* (Garden City, N. Y.: Doubleday, Page. 1920. Pp. viii, 232. $1.75.)

Feld, R. C. *Humanizing industry.* (New York: Dutton. 1920.)

Foster, W. Z. *The great steel strike.* (New York: Huebsch. 1920. $1.)

Gleason, A. *What the workers want. A study of British labor.* (New York: Harcourt, Brace and Howe. 1920. Pp. vii, 518.)

Goemig, F. *Das Arbeitsrecht des neuen Deutschland. I. Die Rechte des Arbeiters im neuen Deutschland.* Second edition, enlarged. (Bonn: Carl Georgi. 1920. Pp. 142.)

Hartmann, G. *Die Stellung der Arbeiterschaft im neuen Deutschland.* (Munich: Hiller. 1919.)

Hecht, J. S. *The real wealth of nations.* (London & Sydney: George G. Harrap & Co. 1920. Pp. 352. 15s.)

Howard, E. D., compiler. *The Hart Schaffner & Marx labor agreement.* (Chicago: Hart, Schaffner & Marx. 1920. Pp 97.)

Gives the agreements and rules under which this firm works.

Howard, H. F. *Capital against labor; or, the next war.* (Rochester, N. Y.: Author. Pp. 41. $1.)

Hutchinson, E. J. *Women's wages. A study of the wages of industrial women and measures suggested to increase them.* Columbia University studies in history, economics, and public law, vol. 89, no. 1. (New York: Longmans. 1919. Pp. 179. $1.50.)

The subtitle of this book raises an interesting point in nomenclature. Should the term "industrial women" be allowed to come into use without some discussion of its meaning? The corresponding term "industrial men" does not seem to be used; and if the term "industrial workers" is the approved method of describing men in corresponding occupations, might not the term "industrial women workers" be preferable to the one employed, if some escape from the old-fashioned "women in industry" is sought?

The first chapter of the volume presents a valuable analysis of the data relating to women's wages collected in a series of official statistical inquiries made in the pre-war period, 1905-1914. Data are brought together from the *Census of Manufactures, 1905,* the reports on the *Condition of Women and Child Wage-Earners,* the reports of the New York Factory Investigating Commission, and from various state departments of labor statistics and minimum wage commissions. Following the analysis of wage statistics and of the relation between wages and the cost of living, Dr. Hutchinson discusses the factors affecting women's wages and the most important means of counteracting the evil of low wages, the minimum wage, trade unionism, and vocational education.

The postponement of the publication of this useful and labor-

iously prepared study makes the data seem curiously obsolete. The picture of women's work and wages in the old pre-war period at first sight appears strangely unreal and out of date. Moreover the author writes as if her discussion were still in line with present-day developments. It is said, for example, in referring to the British Trade Boards act of 1909: "In 1913 four additional trades were brought under the act and the Board of Trade has taken steps to extend it further" (p. 78). As a matter of fact not the Board of Trade but the Ministry of Labor has administered the act for the past three years, and the important new Trade Boards act of 1918 had already a few months ago brought some fifteen additional trades under the act. An account of minimum wage legislation and its effects which ignores the important act of 1918 and the various other extensions of the principle of the state regulation of wages during the war is necessarily incomplete.

EDITH ABBOTT.

LEHMKUHL, J. *Rational Arbeidsledelse.* (Bergen: John Griegs Forlag. 1920. Pp. 88.)

LEWISOHN, S. A. *Address on the relation of the engineer to the human factor in industry.* (Boston: Harvard Liberal Club. 1920. Pp. 4.)

PARKER, C. H. *The casual laborer and other essays.* (New York: Harcourt, Brace, & Howe. 1920. Pp. 199.)

Students of current economic thought will be grateful for this collection of Professor Parker's papers, unfortunately too few in number. The first paper, Toward Understanding Labor Unrest, written early in 1917, has never been previously published; the second, The Casual Laborer, appeared in the *Quarterly Journal of Economics* in 1915, the third, on The I. W. W., in the *Atlantic* in 1917; and the fourth, Motives in Economic Life, in the AMERICAN ECONOMIC REVIEW SUPPLEMENT, vol. VIII (March, 1918).

RYAN, J. A. *A living wage. Its ethical and economic aspects.* Revised and abridged edition. (New York: Macmillan. 1920. Pp. 182. $2.)

Revision and abridgment of book first published in 1906.

SCHÄTZEL, W. *Internationale Arbeiterwanderungen.* (Berlin: Friederichsen & Co. 1919. Pp. 56.)

WILLIAMS, R. *The new labour outlook.* New era series, vol. V. (London: Leonard Parsons. 1920.)

Accident prevention in industry. A selected bibliography. (Detroit: Public Library. 1920. Pp. 6.)

American employers' profit-sharing plans. (New York: National Civic Federation. 1920.)

The code of labor laws in soviet Russia. (New York: Soviet Russia, 110 West 40th St. 10c.)

Compendium of awards in force December 31, 1919. Adult time workers. New South Wales Industrial Gazette, vol. XVII, no. 2, special supplement. *(Sydney: Dept. Labour & Industry. 1920. Pp. 603.)*

Conditions of women's labor in Louisiana. (New Orleans: Council of National Defense. 1920.)

Industrial manual. (Bridgeport, Conn.: Bridgeport Brass Co. 1920. Pp. 151.)

International labor conventions and recommendations. (New York: Am. Assoc. for Intern. Conciliation. 1920. Pp. 50.)

Labor relations in Cleveland. (Cleveland, O.: Chamber of Commerce. 1920. Pp. 6.)

Ninth annual report on labour organization in Canada for calendar year 1919. (Ottawa: Dept. Labour. 1920. Pp. 299.)

Proceedings of the fourth industrial safety congress of New York state, Syracuse, December, 1919. (Albany: Bureau of Statistics and Information. 1920. Pp. 242.)

Report with an historical review of the operations of the Department of Labour and Industry of New South Wales during the year 1918. (Sydney: New South Wales. 1920. Pp. 1306.)

Report of the Commission of Inquiry into the present conditions in Ireland. (London: Labour Party, 33 Eccleston Sq. 1920. Pp. 12. 2d.)

Report on industrial relations. (New York: Merchants Assoc. 1919. Pp. 11.)

Women's wages today: one reason for a legal minimum in New York state. (New York: Consumers' League. 1920. Pp. 12.)

The work of the labor division of the Goodyear Tire & Rubber Co. (Akron, O.: Goodyear Co. 1920. Pp. 97.)

An exceptionally clear and interesting statement of activities to promote welfare in an industrial plant.

Money, Prices, Credit, and Banking

NEW BOOKS

Christen, T. *Ordnung und Gesundung des Schweizer Geldwesen.* (Berne: Union Suisse pour la Terre et l'Argent Libres. 1919.)

von Braun, E., Jr. *Wiedereinführung der Goldwährung.* (Berlin: Parey. 1920. Pp. 16.)

Fisher, E. D. *Loans; a study for banker and borrower.* (Detroit: Bank of Detroit. 1920. Pp. 19.)

Garrett, P. W. *Government control over prices.* (Washington: Supt. Docs. 1920. Pp. 834.)

This is bulletin number three prepared by the Price Section of the War Industries Board and is more extensive than any others of the series that have yet appeared. The writer has undertaken to present a documentary record of all price regulation instituted by the government during the war, with an analysis of these regulations and their effects. Book I contains the data on which the study is made. Book II gives the regulations themselves in detail.

The study is illustrated with ninety-four charts and many foot-note references and explanatory comments, also an extensive bibliography on price regulation, and will be an exceedingly valuable source for material. The authors not only have had access to the data to be found in the files of the war boards but they have gathered much information of fleeting character in respect to rules and agreements which were to be had through personal interviews alone.

MURRAY S. WILDMAN.

GIEBERT, A. *Ueber Entstehung und Entwicklung des öffentlichen Kredits im Grossherzogtum Baden.* (Leipzig: Tuebner. 1920.)

GRAHAM, W. *The bank note circulation of Scotland.* Fifth edition. (Edinburgh: C. & R. Andersen. 1920. 2s.)

HECHT, R. S. *Domestic acceptances; financing warehoused staples.* (New York: American Acceptance Council, 111 Broadway. 1919. Pp. 21.)

HERZFELDER, E. *Die volkswirtschaftliche Bilanz und eine neue Theorie der Wechselkurse.* (Berlin: Springer. 1919. Pp. viii, 487.)

JOHANNSEN, N. *The true way for deflation.* (Stapleton, N. Y.: Author. 1920. Pp. 8.)

KELLENBERGER, E. *Geldumlauf und Thesaurierung. Grundsätze der Notenpolitik.* (Zurich: Füssli. 1920. Pp. viii, 232.)

KEMMERER, E. W. *The A B C of the federal reserve system.* Third edition. (Princeton, N. J.: Princeton Univ. Press. 1919. Pp. 192.)

KING, C. L., editor. *Prices.* (Philadelphia: Am. Acad. Pol. & Soc. Sci. 1920. Pp. 289. $1.25.)

Some of the chapter headings are: Gains and losses caused by rising prices; Prospective changes in the price level; American control over prices; Lumber prices; The petroleum resources of the world; The course of profits during the war; Prices and excess profits taxes; The problem of incentives and output.

LAUGHLIN, J. L. *Banking progress.* (New York: Scribner. 1920. Pp. x, 349. $5.)

LIEFMANN, R. *Arbeitslöhne und Unternehmergewinne nach dem Kriege.* (Stuttgart: J. Hess. 1919. Pp. 27.)

LITTLE, E. L. and COTTON, W. J. H. *Budgets of families and indi-*

viduals of Kensington, Philadelphia. (Philadelphia: Univ. Penn. 1920. Pp. 273.)

Loria, A. *Le peripezie monetarie della guerra.* (Milano: Fratelli Treves. 1920. Pp. 159.)

Major, M. B. F. *Currency. Its bearing on national reconstruction and imperial development.* (Manchester, Eng.: Manchester Statistical Society. 1919.)

Moll, B. *Die modernene Geldtheorien und die Politik der Reichsbank.* (Stuttgart: Enke. 1919. 2.80 M.)

Prion, M. *Inflation und Geldentwertung.* (Berlin. Springer. 1919. Pp. 126.)

Roberts, G. E. *Production as a remedy for inflation.* (New York: Nat. City Bank. 1920. Pp. 8.)

Rovensky, J. E. *The acceptance as the basis of the American discount market.* (New York: Am. Acceptance Council. Pp. 12.)

Sachs, M. *Teuerung und Geldentwertung.* (Dresden: Kaden. 1920. Pp. 46.)

Silver, F. *Commercial banking and credits, bank and trade acceptances.* (New York: Commercial & Financial Inst. of Am. 1920. Pp. 448.)

Stead, F. R. *Banker's advances.* (London: Pitman. 1920. 6s.)

Sumner, W. G. *The English bank restriction and the bullion report of June 8, 1810.* Reprinted from Sumner's *History of American Currency.* (New York: Holt. 1920. Pp. 391. 50c.)

Terhalle, F. *Währung und Valuta.* (Jena: Fischer. 1919. Pp. 64.)

Treman, R. H. *Trade acceptances; what they are and how they are used.* (New York: Am. Acceptance Council. 1920. Pp. 53.)

Wallace, H. A. *Agricultural prices.* (Des Moines, Ia.: Wallace Pub. Co. 1920. Pp. 224.)

The author is frankly seeking to promote the prosperity of the producers of farm products, the study being from the farmers' point of view. About half the book is devoted to tables and charts of statistical material by which he would establish a principle of price determination.

To the student of economic theory, the book is interesting because of its implications. While concerned with agricultural phenomena alone, the author develops a theory of price of general application. Underlying the whole discussion is the ideal of a normal or a just price which is not the outcome of consumers' competition but is a sum of costs of production. While at any given time in a free market, price will be determined by the interplay of supply and demand, in the long run and in a free market the tendency will be

for this supply-and-demand price to conform to cost. However, it is possible by manipulation to prevent this conformity to cost with advantage to the dealer as distinguished from the producer. Therefore, producers should organize for price control that would neutralize the effect of the control which works now to their disadvantage.

To this point the argument is not new. The novelty appears in the method of determining costs of production which are applicable to the fixing of price. To ascertain the normal price of hogs, for example, it would be very difficult to sum up accurately the various elements of cost. Such a task is particularly difficult under the conditions which prevail on the farm as distinguished from the factory. But such accounting is not necessary. The chief component of the cost of hogs is the price of corn; and a definite ratio of corn to hogs, by weight, is technically established by feeding practice. By the use of this ratio the price of corn furnishes a ready test at all times of the equity or propriety of the current price of hogs. Likewise, the price of corn is in turn subjected to a test indicated by the ratio of a day's labor to bushels of output. In like manner all over the domain of agriculture these ratios can be worked out by experience and tests established. It then becomes the duty of farmers so to organize their selling methods that the actual prices will accord with the ideal.

It would not do to judge this book by the standards which one would apply to a text on the theory of value. The defects from such a point of view are quite obvious. For example, the interest charge on the price of land is one of the elements of cost of corn. The author admits a doubt as to the permanency of such prices as prevail today and he also doubts whether sound public policy would permit an indefinite rise in land prices. But the theoretical relation of land rent to corn prices does not concern him in so far as the reviewer is able to see. MURRAY S. WILDMAN.

WARBURG, P. M. *Inflation as a world problem and our relation thereto.* (New York: Acad. Pol. Sci. 1920. Pp. 16.)

WARBURG, P. M. *Acceptances in our domestic and international commerce.* (New York: Am. Acceptance Council. 1920. Pp. 33.)

WOODRUFF, G. *The banker and trade acceptances.* (New York: Am. Acceptance Council. 1920. Pp. 13.)

WIPRUD, A. C. *The federal farm loan system.* (St. Paul: Author. 1920. Pp. 30.)

ZWIESELE, H. *Der bargeldlose Zahlungsverkehr.* (Stuttgart: Moritz. 1919. Pp. 78.)

Acceptances including regulations and rulings of the Federal Reserve Board. (New York: National City Co. 1920. Pp. 68.)

Compte rendu de l'Assemblée générale des actionnaires du 29 janvier, 1920. (Paris: Banque de France. 1920. Pp. 80.)

Das schweizerische Bankwesen im Jahre 1918. (Berlin: Stämpfli. 1920. Pp. 73.)

The farm loan primer. (Washington: U. S. Federal Farm Loan Bureau. 1920. Pp. 13.)

The gold supply of the world, in relation to credit, banking, and prices. (St. Louis: First Nat. Bank. 1920. Pp. 6.)

International comparisons of prices of cotton cloth, January, 1919-March, 1920. Bureau of Business Research, bulletin no. 17. (Cambridge: Harvard Univ. Press. 1920. Pp. 28. $1.)

Our vanishing gold reserve. (Washington: Am. Mining Congress. 1920. Pp. 27.)

A standard of value. Transactions of the Commonwealth Club of California, vol. XV, no. 1. (San. Francisco: Secretary of the Club, 153 Kearny St. 1920. Pp. 75.)

Contains: "The economic and political aspects of plans for a compensated dollar," by E. R. A. Seligman; "A commodity unit to supplement money as a standard of value," by C. F. Grunsky; "The Fisher plan for stabilizing the dollar," by Norman Lombard.

Public Finance, Taxation, and Tariff

NEW BOOKS

Batardon, L. *Les taxes sur les paiements et sur les depenses de luxe; leur conséquences au point de vue commercial et comptable . . . commentaire des articles 18 à 28 de la loi du 31 décembere 1917.* (Paris: Dunod & Pinat. 1918. Pp. vii, 112.)

Bernhard, G. *Probleme der Finanzreform.* (Berlin: Walter de Grunter & Co. 1920. Pp. 63.)

Black, H. C. *Supplement to Black on federal taxes, January, 1920.* Fourth edition. (Kansas City, Mo.: Vernon Law Bk. Co. 1920. Pp. 157.)

Buck, L. and Lucas, R. *Kommentar zur Vermögens- und Mehreinkommensteuer.* I. *Vermögenszuwachs und Mehreinkommen (Mehrgewinn-) steuer.* (Berlin: Vereinigungwissenschaftlicher Verlager. 1920. Pp. 334.)

Cleveland, F. A. and Buck, A. E. *The budget and responsible government.* (New York: Macmillan. 1920. Pp. 406. $3.)

Cossa, L. *Premiers éléments de la science des finances.* Translated from the Italian. (Paris: Giard & Brière. 1920. 7 fr.)

Fisk, H. E. *English public finance: from the revolution of 1688. With chapters on the Bank of England.* (New York: Bankers Trust Co. 1920. Pp. 241.)

HAENEL, H. G. *Eine Kapitalrentensteuer im Rahmen der Neuordnung der Reichsfinanzen.* (Jena: Fischer. 1920. Pp. 76.)

HAINES, C. G. *The movement for the reorganization of state administration.* (Austin: Univ. Texas. 1920. Pp. 80.)

Contains brief summary of movements for economy and efficiency in different states and a three-page list of references.

HOLMES, G. E. *Federal income tax, war-profits and excess-profits taxes, including stamp taxes, capital stock tax, tax on employment of child labor.* (Indianapolis: Bobbs-Merrill. 1920. Pp. 1151.)

JACOBI, E. *Steuerflucht und Kapitalflucht.* (Berlin: Dahlen. 1920. Pp. 23.)

KENYON, B. C. *Documentary state revenue stamps of the United States.* (Long Beach, Calif.: Author. 1920. Pp. 100. $4.)

KOEPPE, H. *Finanzwissenschaft.* (Jena: Fischer. 1919. Pp. viii, 487.)

LINDAHL, E. *Die Gerechtigkeit der Besteuerung.* (Lùnd: Gleerupsk Universitets Bokhandeln. 1920. Pp. 224.)

MARIN, L. *Rapport général sur le budget ordinaire des services civils de l'exercice 1919.* (Paris: Chambre des Députés. 1919. Pp. 456.)

MONTGOMERY, B. G. *Politique financière d'aujourd'hui, principalement en consideration de la situation financière et économique en Suisse.* (Vevey: Klausfedler. 1920. Pp. 403.)

PARKER, W. *The Paris bourse and French finance. With reference to organized speculation in New York.* Columbia University studies in history, economics, and public law, vol. LXXXIX, no. 3. (New York: Longmans. 1920. Pp. 116. $1.)

ROTHMAN, M. H. *A synopsis of the New York state income tax law.* Second edition. (New York: Author, 302 Broadway. 1920. Pp. 12.)

ST. CLAIR, L. *The story of the liberty loans.* (Washington: Bryan Press. 1919. Pp. 186. $5.)

SELIGMAN, E. R. A. *La liquidation financière de la guerre aux Etats-Unis.* (Paris: Giard & Briere. 1920. 3.50 fr.)

SELIGMAN, E. R. A. *La coût de la guerre et la manière dont on y a pourvu.* (Paris: Giard & Briere. 1920. Pp. 44.)

STRUTZ, G. *Das Gesetz gegen die Steuerflucht vom 26. Juli, 1918.* (Berlin: Heymanns. 1919. Pp. 210. 8 M.)

TAUSSIG, F. W. *Free trade, the tariff, and reciprocity.* (New York: Macmillan. 1920. Pp. 219. $2.)

Comprises: The present position of the doctrine of free trade, presidential address before the American Economic Association, December, 1904; Abraham Lincoln on the tariff (*Quarterly Journal of*

Economics, Aug., 1904); How the tariff affects wages (*Atlantic Monthly*, Sept., 1919); Wages and prices in relation to international trade (*Quart. Journ. Econ.*, Aug., 1906); How to promote foreign trade, address delivered before the Chamber of Commerce of the United States at Chicago, Apr. 11, 1918; Reciprocity (*Quart. Journ. Econ.*, Oct., 1892); Cost of production and the tariff (*Atlantic*, Dec., 1910); An inquiry on the costs of wool and woolens (*American Economic Review*, June, 1912); How tariffs should not be made, (*Am. Econ. Rev.*, Mar., 1911); The proposal for a tariff commission (*North American Review*, Feb., 1916); Tariff problems after the war (*American Problems of Reconstruction*, Dutton, 1919).

THUM, W. *The coming land policy. The antithesis of the single tax policy. Supplement to "untaxing the consumer."* (Pasadena, Calif.: Author. 1920. Pp. 66.)

TIVARONI, J. *I monopoli governativi del commercio e le finanze dello stato.* (Bari: Gius. Laterza & Figli. 1920. Pp. 74. 8 50 l.)

Annual report of financial transactions of municipalities and counties, for the year 1919. (Sacramento, Calif.: Controller. 1920. Pp. 241.)

The corporation trust company's 1913-1920 income tax service. (New York: Corporation Trust Co. 1920. Pp. 483.)

The customs service; complete course of instruction for first and third grade clerks; covers all examinations for clerkships in the federal service, with questions and answers. (New York: N. Y. Civil Service Employees Publishing Co. 1920. Pp. 332. $1.50.)

L'impôt successoral. (Bruxelles: Lebèque & Cie. 1919. Pp. 78.)

L'impôt sur les bénéfices de guerre. (Bruxelles: Lebèque & Cie. 1919. Pp. 158.)

Income and excess profits taxes for 1919; a digest of the law and a comprehensive survey of the new features affecting 1919 income. (New York: Standard Statistics Co. 1919. Pp. 71, 63.)

Income tax. Report of Royal Commission. Seventh instalment of evidence, with appendices. (London: H. M. Stationery Office. 1920.)

La situation économique et financière de la Suisse. (Bâle: Société de Banque Suisse. 1920. Pp. 162.)

New York state personal income tax law; summary and text of law; list of securities with values as of January 1, 1919; 1919 law. (New York: Harris, Forbes & Co. 1920. Pp. 102.)

Proceedings of the twelfth annual conference on taxation under the auspices of the National Tax Association. (New York: Nat. Tax Assoc. 1920. Pp. xi, 554.)

Proposed relief to manufacturers, exporters and importers from results of demoralization in customs service. (New York: Merchants Assoc. of N. Y. 1920. Pp. 15.)

Synopsis of the Massachusetts corporate excise tax law, general acts of 1919; with comparative applications of this and the older law. (Boston: National Shawmut Bank. 1920. Pp. 14.)

Tax rates and taxable values in Texas cities. A summary of the answers received to a questionnaire on the subject sent to Texas cities on November 27, 1919. (Austin: Univ. Texas. 1920. Typewritten. Pp. 22.)

War loans, resources, and progress of Canada. (New York: A. E. Ames & Co. 1920. Pp. 55.)

Population and Migration

NEW BOOKS

von Bortkiewicz, L. *Bevölkerungswesen.* (Leipzig: Teubner. 1920. 6.25 M.)

Phelps, E. M., compiler. *Selected articles on restriction of immigration.* (New York: Wilson. Pp. 83. 50c.)

Scott, E. J. *Negro migration during the war.* Carnegie Endowment for International Peace, Division of Economics and History, Preliminary Economic Studies of the War, no. 16. (New York: Oxford Univ. Press. 1920. Pp. 189.)

Stoddard, L. *The rising tide of color against white world-supremacy.* (New York: Scribners. 1920. $3.)

Immigrant backgrounds. (New York: Russell Sage Foundation. 1920. Pp. 3. 10c.)

Japanese immigration and the Japanese in California. (San Francisco: Farmers' Coöperative Assoc. 1920.)

Jewish colonization in Palestine: methods, plans, and capital. (The Hague: Jewish National Fund. 1920. Pp. 110.)

Statistics relative to Japanese immigration and the Japanese in California. (San Francisco: Japanese Assoc. of America, 444 Bush St. 1920.)

Social Problems and Reforms

NEW BOOKS

Attlee, C. R. *The social worker.* (London: G. Bell. 1920. Pp. 26. 6s.)

Bassett, E. M. *Zoning.* (Philadelphia: National Municipal League. 1920. Pp. 30.)

Belden, E. *Courts in the United States hearing children's cases. Results of a questionnaire study covering the year 1918.* Children's Bureau publication no. 65. (Washington: Supt. Docs. 1920. Pp. 115.)

BLACHLY, C. D. *The treatment of the problem of capital and labor in social study courses in the churches.* (Chicago: Univ. Chicago Press. 1920. Pp. vii, 90.)

BUTLER, N. M. *Is America worth saving?* (New York: Scribner. 1920. $2.)

CALKINS, R. *Substitutes for the saloon; an investigation originally made for the Committee of Fifty.* Second edition, revised. (Boston: Houghton Mifflin. 1919. Pp. 376.)

CHERRINGTON, E. H., editor. *Anti-saloon yearbook, 1919.* (Westerville, O.: Anti-Saloon League of America. 1920. Pp. 470. 50c.)

CHITTICK, A. *Social evolution.* (Peoria, Ill.: Author, Lehmann Bldg. 1920. Pp. 124. $2.)

COFFIN, H. S. *A more Christian industrial order.* (New York: Macmillan. 1920. Pp. 86. $1.)

CORY, H. E. *The intellectuals and the wage workers; a study in educational psychoanalysis.* (New York: The Sunwise Turn. 1919. Pp. 273.)

DAWSON, E. *Organized self-government.* (New York: Holt. 1920. Pp. xxiv, 383.)

Includes chapters on: Some public utilities; Disposal of waste; Protection from fire and disorder; Education and culture; Building zones or districts; City's expenses; Conservation by the state; Government by business; Expenses of our federal government; Socialism and capitalism.

DOUGLAS, C. H. *Economic democracy.* (London: C. Palmer; New York: Harcourt, Brace, and Howe. 1920. Pp. 144.)

DUGUIT, L. *Law in the modern state.* (New York: Huebsch. 1919. Pp. 245. $2.45.)

EDIE, L. D. *Current social and industrial forces.* (New York: Boni & Liveright. 1920. Pp. 393.)

ELMER, M. C. *Technique of social surveys.* Revised edition. (Minneapolis: Univ. Prtg. Co. 1920. Pp. 117.)

FASSIO, M. *L'educazione commerciale.* (Torino: Fratelli Bocca. 1920. 10 l.)

FINDLAY, J. J. *An introduction to sociology; for social workers and general readers.* (New York: Longmans. 1920. Pp. 304. $2.)

FLINT, G. E. *The whole truth about alcohol.* (New York: Macmillan. 1919. Pp. xii, 299.)

FOLKS, H. *The human costs of the war.* (New York: Harper. 1920. Pp. 325. $2.25.)

FREUND, E. *Illegitimacy laws of the United States and certain foreign countries.* Children's Bureau publication no. 42. (Washington: Supt. Docs. 1920. Pp. 260.)

FURNESS, A. D. S. and PHILLIPS, M. *The working woman's house.* (London: Swarthmore Press. 1920.)

GODDARD, H. R. *Human efficiency and levels of intelligence.* (Princeton, N. J.: Princeton Univ. Press. 1920. Pp. vii, 128. $1.60.)

GREENWOOD, A. *Public ownership and control of the liquor trade.* New era series, vol. IV. (London: Leonard Parsons. 1920.)

HAYNES, R. and DAVIES, S. P. *Public provision for recreation.* (Cleveland, O.: Cleveland Foundation Committee. 1920. Pp. 198.)

KENEALY, A. *Feminism and sex extinction.* (London: T. Fisher Unwin. 1920. 8s. 6d.)

KESSLER, G. *Democracy and citizenship; a treatise on social sciences.* (Butte, Mont.: Butte Independent Print. 1920. Pp. 152.)

KLEIN, P. *Prison methods in New York state.* Columbia University studies in history, economics, and public law, vol. XC, no. 1. (New York: Longmans. Pp. 420.)

LANE-CLAYPON, J. *The child welfare movement.* (London: G. Bell & Sons. 1920. 6s.)

LUNDBERG, E. O. and LENROOT, K. F. *Illegitimacy as a child-welfare problem.* Children's Bureau publication no. 66. (Washington: Supt. Docs. 1920. Pp. 105.)

LYON, L. S. *A survey of commercial education in the public high schools of the United States.* (Chicago: Univ. of Chicago. 1920. Pp. 59. 1919. 65c.)

MECKLIN, J. M. *An introduction to social ethics; the social conscience in a democracy.* (New York: Harcourt, Brace and Howe. 1920. Pp. 446.)

MILLER, F. T. *The housing situation in England and the United States.* (New York: Dodge Co., 119 West 40th St. 1920. Pp. 30.)

POWELL, L. P. *The social unrest; capital, labor, and the public in turmoil.* (New York: Review of Reviews Co. 1919.)

RAINWATER, C. E. *Community organization.* (Los Angeles: Southern California Sociological Society. 1920. Pp. 23. 25c.)

ROBERTS, R. *The unfinished programme of democracy.* (New York: Huebsch. 1920. Pp. 326. $2.)

Temperate in style, the author argues in favor of socialization of economic power. Life must be delivered from the ascendancy of the economic motive.

ROUQUETTE, L. *L'enseignement technique et l'apprentissage aux Etats-Unis.* (Paris: Musée Social. 1920. Pp. 72.)

RUSHMORE, E. M. *Bibliography for social workers among the foreign-born.* (New York: Y. W. C. A., 600 Lexington Ave. 1920.)

Russell, B. *Principles of social reconstruction.* (London: G. Allen & Unwin. 1920. Pp. 250.)

Schumacher, F. *Hamburgs Wohnungspolitik von 1818 bis 1919.* (Hamburg: Friedrichsen & Co. 1920. Pp. 74.)

Sinclair, U. B. *The brass check; a study of American journalism.* (Pasadena, Calif.: Author. 1920. Pp. 444. $1.)

Spielman, M. A. *Romance of child reclamation.* (London: Reformatory and Refuge Union, 117 Victoria St. 1920. Pp. 144. 5s.)

Straus, S. W. *History of the thrift movement in America.* (Philadelphia: Lippincott. 1920. Pp. 256.)

Sumner, W. G. *What social classes owe to each other.* (New York: Harper. 1920. Pp. 169.)

Wallerstein, H. C. *The functional relation of fifteen case working agencies and the report of the Philadelphia Intake Committee.* (Philadelphia: Seybert Institution. 1919. Pp. 176.)

To the social worker this study has a great deal of significance. No previous literature brings out so clearly the interrelated activities of case-working agencies nor gives so calm an analysis of the results of their coöperative effort.

The study itself deals with cases referred or transferred from one agency to another and the results obtained by such action. The cases of 421 families were studied according to the following plan: first, what kind of problem was invloved? second, what was done by the first agency in touch with the family? third, what action was taken by the receiving agency? and fourth, with what results? More than one half of the cases were received by the Society for Organizing Charity from other agencies; 79 by the Society to Protect Children from Cruelty; 72 by the Children's Bureau, and the remainder by other social agencies.

The cases studied were not the typical ones handled by a particular agency, but the difficult, intricate cases each involving several problems. For these reasons they were referred by one society to another. Among the general criticisms made by the investigators are the following. Most of the agencies had no definite plan of investigation and the amount of investigation depended primarily on the agency's conception of its function and not on the needs of the case; the least intensive investigations were made by hospital social service departments and the most exhaustive ones by the Society for Organizing Charity; often the agency with which a case originated did not even learn the nature of the problem involved; frequently two different agencies made simultaneous investigations, and much confusion, duplication and uncertainty of responsibility resulted; specialized agencies were, on the whole, less definite and clear in their treatment of cases than family agencies; more than one third of the cases were unwisely referred from one society to another and frequently the second was not properly prepared to

treat them; finally, the agencies neglected to consult each other sufficiently or to give each other the full advantage of information obtained.

Part II is a presentation of the analysis of twenty-five typical cases by a special committee. Each case is discussed separately and the opinion of the committee given as to what would have constituted the proper method of procedure. These cases strongly emphasize the findings embodied in the main division of the report.

G. B. MANGOLD.

WEBB, J. P. *The American prison system.* (Salem, O.: O. S. P. Printery. 1920. Pp. 262.)

ARMOURDALE. *A city within a city.* (Lawrence, Kans.: Univ. of Kansas. 1920. Pp. 91.)

The children's summer camp. With supplement on home living conditions. (Framingham, Mass.: Community Health Station. 1920. Pp. 31.)

Conference on social work. Proceedings of the national conference, held at Atlantic City, June, 1919. (Chicago: Headquarters, 315 Plymouth Court. 1920. Pp. 813.)

Documents relating to vocational education. (Sacramento: California State Board of Education. 1920. Pp. 80. 1919.)

The equipment of the workers. An inquiry by the St. Philip's Settlement Education and Economics Research Society into the adequacy of the adult manual workers for the discharge of their responsibilities as heads of households, producers, and citizens. (London: Allen & Unwin. 1920. Pp. 334. 6s.)

Opportunities for women in agriculture and country life. (Amherst: Massachusetts Agricultural College. 1920. Pp. 16.)

The problem of democracy. (Chicago: Univ. of Chicago. 1920. Pp. 295. $1.50.)

Papers and proceedings of the American Sociological Society.

Rescue work: an inquiry and criticism. (London: Committee of Social Investigation and Reform, 19 Tothill St. 1920. Pp. 122. 1s.)

Some effects of widowhood in wage-earning families. (London: National Council of Social Service, 8A New Cavendish St., W. 1920. Pp. 37. 1s.)

Wohnungsnot. (Leipzig: Schulze. Pp. 30.)

Insurance and Pensions

NEW BOOKS

ANDERSON, D. S. *Anderson's complete index to the workmen's compensation act of Alabama.* (Birmingham, Ala.: Dispatch Prtg. & Stationery Co. 1920. Pp. 27.)

BARTON, W. F. *Forms and clauses.* (New York. Ins. Inst. of Am. 1920. Pp. 67.)

BÜHRING, G. and MERTINS, O. *Erläuterungen zu den Unfallversicherungsbedingungen. Herausgegeben vom Allgemeinen Deutschen Versicherungsverein auf Gegenseitigkeit zu Stuttgart.* (Stuttgart: Selbstverlag. 1920. Pp. 202.)

BRUCK, E. *Materialien zu den Allgemeinen Deutschen Seeversicherungsbedingungen.* (Hamburg: Friederichsen & Co. 1919. Pp. 394; 284.)

DODD, E. L. *A comparison of the premiums of the Teachers Insurance and Annuity Association with those of other legal reserve companies.* (Austin, Texas: Univ. Texas. 1920. Pp. 19.)

DOMINGE, C. C. and LINCOLN, W. O. *Fire insurance inspection and underwriting; an encyclopedic handbook defining insurance terms and describing processes and materials used in mercantile and manufacturing establishments, and their fire hazards.* Second edition. (New York: Spectator Co. 1920. Pp. 763. $5.)

MORGENSTERN, T. *Arbeitslosenversicherung und deutsche Erwerbslosenfürsorge unter Berücksichtigung der Frage des Arbeitsnachweises.* (Leipzig: L. Meiner. 1920. Pp. ix, 65.)

PAULY, O. *Die englische Kriegsgefahrversicherung in der Seeversicherung.* (Marburg: G. Braun. 1919.)

PRANGE, O. *Die Sozialisierung des Versicherungswesens.* (Jena: Fischer. 1920. Pp. 82.)

RYDER, A. *Principles of automobile rate-making. Underwriting the dollar.* (New York: Insurance Soc. of N. Y. 1920. Pp. 27.)

Allgemeine Deutsche Seeversicherungsbedingungen. (Hamburg: Friederichsen & Co. 1919. Pp. 56.)

The Connecticut Mutual educational course, published in the interests of "professional public service." (Hartford, Conn.: Connecticut Mutual Life Insurance Company. 1920. Pp. 214.)

Digest of workmen's compensation laws in the United States and territories, with annotations. Sixth edition, revised to December 1, 1919. (New York: Workmen's Compensation Publicity Bureau. 1920.)

Industrial life assurance companies and collecting societies, report of the Board of Trade Committee on the business of. (London: Wyman. 1920.)

Negligence and compensation cases annotated; with pleadings and forms. (Chicago: Callaghan. 1920. Pp. xlviii, 1146.)

Pensions. Select committee first and second special reports, with evidence and appendices. (London: Wyman. 1920. Pp. 247. 5s.)

Report of the committee on statistics and origin of fires. (New York: National Board of Underwriters. 1920.)

Reports of fire insurance companies for year ending December 31, 1918. Fourteenth annual edition. (Chicago: Spectator Co. 1919. Pp. 432. $5.)

Requirements for admission to foreign insurance corporations (fire and marine) to the state of New York. (New York: C. P. Stewart & Co. 1920.)

A system of records for local farmers' mutual fire insurance companies. Farmers bulletin no. 840. (Washington: Supt. Docs. 1920.)

What constitutes a reasonable underwriting profit and the method of determining same. (New York: National Board of Fire Underwriters. 1920. Pp. 29.)

Workmen's compensation law of Porto Rico, amendments effective September 17, 1919; of Massachusetts, with amendments and supplementary acts, August, 1919. (New York: F. R. Jones, 80 Maiden Lane. 1920. Pp. 26; 48.)

Socialism and Co-operative Enterprises

Socialism versus Civilization. By Boris Brasol. With an introduction by T. N. Carver. (New York: Charles Scribner's Sons. 1920. Pp. xxiv, 289. $2.00.)

A few years ago, when socialism was, at best, a semi-scientific theory of social evolution, and, at worst, a utopian propaganda, it was usual for critics to deal with it in a spirit of good humored tolerance; but now that it seriously threatens the foundations of civilization, disinterested exposition has changed to active opposition and counter propaganda. Formerly, too, socialistic theory was regarded as a mere by-product or symptom or shadow of unsatisfactory industrial conditions; but now it is recognized as a powerful toxic product that may poison and destroy the social organism. Thus Professor Carver, in his introduction, says:

> There is a close parallelism between the overthrow of an ancient civilization by invasion from without and the proposed overthrow of civilization by revolution from within. In neither case is there a conscious desire to destroy civilization. There is only a conscious determination to take possession of what is now in possession of others. . . . The only things that will save civilization are, first, to make it possible for the great majority to prosper under this system, as they do in this country, and, second, to show them that this system of liberty and voluntary agreement is the best possible system for men of intelligence, virtue and productive capacity.

Mr. Brasol shows very clearly the many weak points of socialistic theory, even as amended by revisionists, syndicalists, and guild socialists, and the more obvious weaknesses of such proposals for social reorganization as they have ventured to make; but his most formidable attack is directed against the bolshevist experiment in Russia, the ghastly failure of which has done more to discredit socialism than volumes of learned criticism or millions of popular tracts could ever do. Socialists will say, of course, that Russia was not "ripe" for the revolution, and Mr. Brasol admits a certain validity to this defense, calling attention to the fact that out of 180,000,000 of the pre-war population, approximately 120,000,000 were peasants and only 6,500,000 or 7,000,000 were proletarians in the Marxian sense. Most authorities, in fact, place the number of peasants much higher than this. In other respects, however, the experiment has been tried under favorable conditions, especially in that the agricultural character of the country and its tremendous natural resources has enabled the socialist government to prolong its existence as it could not have done in any other country. True, the blockade was injurious, but it has never been complete; it did not interrupt the trade with Germany, Scandinavia and China; and was not the cause of the breakdown of the railways, as Russia had a number of excellent rolling mills and adequate facilities for the manufacture of locomotives and other equipment. The revolution was deliberately planned and ruthlessly executed in accordance with the most approved tactics of the Marxian left wing, and the responsibility for its failure cannot be evaded or shifted. As Lenine himself said to Mr. Arthur Ransome, "Russia was indeed the only country in which the revolution could start."

The failure of this gigantic experiment is seen not only in the industrial paralysis of Russia, the introduction of compulsory labor, the collapse of the monetary system, the seizing of supplies by the government in lieu of taxes, and the payment of high salaries to "bourgeois specialists"; but more clearly in the rise of a new bourgeoisie, a social group of grafters and profiteers who are always law breakers, carrying on what little business there is in secret and at extortionate prices. One is reminded of the parable of the devil that was cast out of a man but later returned with seven other devils worse than the first.

Regardless of Russian experience, socialists of the left wing are planning similar revolutions in various parts of the world,

with thousands of agents fomenting unrest in every possible way —*by propaganda in shops, schools and churches, in newspapers and magazines, by revolutionary strikes, by demanding the nationalization* of railways and mines, by undermining the loyalty of the army and the police, and by unrestrained and unreasonable criticism of the existing industrial order. Doubtless Mr. Brasol is right in affirming that such a conspiracy exists and should be carefully watched, but he seems to overstate the case by giving too little weight to other causes of unrest and by too sweeping condemnation of everything that savors of socialism in the slightest degree. Then, too, the author makes careless statements here and there, as when he links together the British I. L. P. with the American I. W. W. and the German Spartacans, gives the date of the Bolshevik coup d'état as October 28, 1917, instead of November 7 (Oct. 25, O. S.), and designates as a "well known economic law" the truism that the increase in the prices of products involves a decrease in the value of money. For all that, Mr. Brasol's book gives a just though not a neutral estimate of the character and aims of modern socialism. But neutrality is a questionable virtue in time of war.

J. E. LeRossignol.

University of Nebraska.

Coöperative and Other Organized Methods of Marketing California Horticulture Products. By John William Lloyd. (Urbana: University of Illinois. 1919. Pp. 142. $1.25.)

No work shows as completely as this the historical development of farmers' coöperative marketing organizations in the United States and the problems of distributing food products through them with some regard for the interests of producers and consumers. The condition of growers in California before their organization into associations for marketing their own products is shown by the author to have been unfavorable to the continuance of production. Prices paid for farm products by brokers and jobbers were below the cost of production. In 1915 the price paid the peach-grower was only two and a half cents per pound, one cent below the average cost of production. Low prices were due to the fact that the packers speculated with the crop and influenced prices to their own advantage whether buying or selling. They would tell the growers that there was not much demand for their peaches and the jobber that the crops were short. Similar

conditions prevailed in the almond industry, so that growers began to grub out their orchards. The Almond Growers' Exchange, an affiliation of the local association, was then formed, whereby growers have made good profits from their orchards.

The organization and federation of several associations under the control of the producers of citrus fruit raised and stabilized prices to the growers, increased production, made it possible for oranges to be marketed for 3 to 4 per cent rather than the 7 to 10 per cent charged by the brokers, secured information as to market prices and needs, uncolored by the interests of buyers, cheapened and improved transportation service, educated the consumers to a greater use of oranges without increasing the cost of distribution, and raised the whole industry from a condition of depression to one of growth and of remunerative prices.

The methods of operation followed by the coöperative organization are considered by the author in detail to show the problems of grading, packing, inspection, routing according to the needs of different markets, market news service, determination of sale price, advertising to increase use, and improving methods of salesmanship of retail stores.

In this coöperative organization movement, the farmers, like the laboring classes, are striving for a collective voice in the determination of the award for their labor; but, unlike the laboring classes as a whole, they have found that control of the processes of production is inadequate without control of the processes of distribution. However, the author does not think it possible for growers who are scattered over the United States to accomplish equal results in reducing the cost of distribution generally. He does not attempt, except in a very limited way, to show how the wastes of the present system of competitive distribution may be avoided.

The assumptions underlying this presentation of the problems of marketing are at variance with those of the classical economic theory, but very much in accord with the conceptions held by promoters of farmers', labor, and business organizations generally, by housewives' leagues, government regulators of railroads and of industry, reformers of profiteers generally, as well as by revolutionists. To the classical theorist, prices are a resultant of a natural order of supply and demand which cannot be changed. The distributor is a colorless reflector of the economic forces which determine prices. If, however, it can be shown that by tak-

ing thought, the system of distribution can be changed so as to give consumers a more adequate supply of goods at a less cost, then possibly there may be no finality in the conclusion based on the old assumptions, according to which food prices and rents of agricultural land would tend to be high, profits low, and wealth would centralize in the hands of the agricultural landlord class. *Possibly it does make a difference to the producers whether they* themselves control the marketing organizations or middlemen control such organizations; and to the consumers whether consumers control the distributive processes or profiteers control them. Mr. Lloyd shows how the struggle for control of markets by middlemen affects the interests of the producer and discourages production. The principal kind of control assumed by traditional theory was political. This control, exercised by the landlord government in its own interests, the classical theorists, who were the exponents of the new industrial order, thought to be bad. Any government control today is considered impracticable by the business interests, though there is no consistency at this point.

Mr. Lloyd's main conclusion is that control of distribution by producers instead of by middlemen has increased food production, but he does not think that such control would follow the usual development, namely, that when well intrenched, the growers, like capital and labor, would limit the supply in order to increase their advantage.

WILLIAM R. CAMP.

University of California.

The Nonpartisan League. By HERBERT E. GASTON. (New York: Harcourt, Brace and Howe. 1920. Pp. 325.)

Many articles both favorable and unfavorable have been written concerning the National Nonpartisan League, of which Arthur C. Townley is the creator and head, and which is another name for what is called the "new day" in North Dakota. This book by Mr. Gaston is, however, the first authoritative, and to a certain extent unbiased, statement of the genesis and growth of the movement. Three years' employment on the publication controlled by the league has given Mr. Gaston an intimate knowledge of the organization, and, although the reader is assured of a "conscientious effort to make a faithful report of facts of essential interest," favorable conclusions are the rule. This point should be kept in view in judging the matter presented.

According to the claims made, the league is an organization having a membership of some 200,000 persons in thirteen western states. With the exception of Wisconsin, all these states lie west of the Mississippi River. It is entirely and exclusively a farmer's organization and, moreover, one of working farmers. The average member is the farmer who, with his family, cultivates his own farm, which is usually from a quarter section of 160 acres to a full section in extent. North Dakota is the most important center of activity, and it is there that the political program of the organization is being enacted into law. The statement is made, and is probably true, that North Dakota conditions and North Dakota psychology are in large part responsible for the league's existence.

The beginnings of the league date back to 1915 and the whole movement is a capitalization of conditions by its organizers. North Dakota is essentially a one-crop state and the growing of wheat is thus the principal industry. The complaint of the farmers was that at the outside owned elevators they did not receive fair treatment, especially in the grading of their wheat. It was believed that the farmers should have received better grades for their wheat, and a corresponding increase in price, inasmuch as the terminal elevators found it possible to buy 100,000 bushels of so-called No. 2 and No. 3 wheat and mix it with No. 1 Northern and sell the whole mixture for No. 1 Northern, and mix all of the so-called No. 4 and lower grades with what was left of the No. 2 and No. 3 wheat and sell the mixture as No. 2 and No. 3 wheat. The farmer believed that he was being cheated both in grades and weights and would continue to be cheated so long as the Minnesota grading controlled. The elevator operators said it was quite fair to mix, for instance, No. 1 Northern having a surplus over the required weight per bushel with grain just a little under the required weight and to make the whole mixture No. 1, and they also said that by cleaning, evaporation of moisture, and other means known to the large elevators, they could improve the grade, quality, and salability of grain.

The idea grew that the building of large state-owned elevators and flour mills would make it possible for the state to regulate the grades. The mandate of a popular vote approved the project, and the legislature commissioned members of the State Board of Control to make an investigation and to report plans and specifications for the construction of a state-owned elevator or state-owned elevators. The report was an adverse one, and when delegations

of farmers visited the legislature and demanded hearings before committees, hot arguments developed; during one of these an angry legislator is reported to have demanded by what right "a bunch of farmers come down here to browbeat the legislature," and ended by advising them to "go home and slop the hogs." This derisive advice became the slogan in the fight of the farmers against the ruling political group.

These grievances and others, real or imaginary, combined with the feeling that the towns were in a business conspiracy against them, made the farmers ready to follow a radical leader. Such a leader was Townley, the man with an idea, as Mr. Gaston calls him. Mr. Townley had failed as a flax farmer and was now ready to lead a social crusade. What he had seen and heard had convinced him that the farmers were ready to desert the old parties and form a new organization if anything was offered which held hope of being better. "Townley was determined to offer them something better. The Nonpartisan League was born in his brain at the city of Bismarck in February of 1915." Having made a few converts he devised a unique scheme for organizing the new movement. A selected group of organizers was sent out in "Fords" to explain personally the merits of the new organization to the farmers and solicit them to join. Each farmer was to pay a fee finally fixed at $16 for two years. Townley it is said had reasoned out in advance that a man with $16 at stake would stand by a political organization, if only "to get the worth of his money," or to convince himself and his neighbors that he had not been cheated.

The organization grew and, instead of forming a new party, gradually got control of the Republican party machinery. In 1918 the league elected the governor and got control of both houses of the legislature of North Dakota. Various constitutional amendments and legislative acts to carry into effect an industrial program and to permit state bond issues to finance the enterprise were passed. The acts involved were those establishing a state industrial commission; a state bank capitalized at $2,000,000 and operated under the commissioner's supervision; a milling and elevator association and a home building association. Another statute provided for a $10,000,000 revolving fund from which loans could be made by the bank on real estate. These statutes were attacked in two separate proceedings instituted by taxpayers to enjoin state officials from enforcing them. The North Dakota Supreme Court in both cases declared the acts constitutional. An

appeal was made to the United States Supreme Court which in June, 1920, refused to interfere with the decision of the North Dakota Supreme Court declaring these acts constitutional.

State socialism is the real essence of the movement. The measures creating state-owned enterprises have been carried by substantial majorities in referendum votes and the state seems committed to a tryout on a considerable scale of socialistic ideas. Aside from a doubtful loyalty during the war, the league has thriven on the abuse of its enemies. The opponents of the movement have not met the issue squarely and by mud slinging and vituperation have made any candid and unbiased consideration of the movement impossible. To the soft impeachment "Townley is a dead-beat and you are a socialist" the retort is, "You are trying to farm the farmers and belong to the old gang." Even if all this were true, such railing is not argument. It leads nowhere. No votes are changed.

Concerning two incidents, Mr. Gaston gives only the facts favorable to the league. Concerning one incident he says: "Neil Macdonald, superintendent of public instruction, indorsed by the league, was defeated by Miss Minnie Neilson of Valley City, who had been superintendent of the Barnes county schools. The election of Miss Neilson was due to the support of the anti-league forces and of women's organizations in which she had been active, women having the vote for that office." As a matter of fact, the rebellion of the women teachers against the methods of Mr. Macdonald as superintendent was probably the largest factor in Miss Neilson's election. But that is not the whole story; Mr. Macdonald was a poor loser and so a new office was created for him. Not only that, but many of the prerogatives of the state superintendent were taken away from Miss Neilson and given to her defeated rival. The incident is a flagrant example of bad politics in education and an exhibition of poor sportsmanship. The other incident is in connection with the closing of the Scandinavian-American bank at Fargo. The bank had made loans to various individuals and enterprises affiliated more or less closely with the league. A majority of the State Banking Board declared the bank insolvent and ordered its doors closed. As the majority on the board consisted of two men who had turned against the league the explanation was made that the move was purely a political one. The bank was reopened. The thing to be noticed, however, is this—since then the endeavor has been made to put it on a sound basis in accordance with good banking practice.

The weakness of the Nonpartisan movement lies in the fact that ideas and measures are handed down from a small controlling group. *The idea of what is generally understood as coöperation is* absent. The members of the league have no stake in the various enterprises for the money is provided by the state. The success of such state-owned enterprises depends, of course, upon the efficiency of management and fidelity to sound business principles on the part of the men chosen to direct them. The absence of direct financial responsibility is a weak link in the chain and, human nature being what it is, such a condition sooner or later will bring about a following whose main interest will be the loaves and the fishes. Economic success and political success are different terms. Banks, flour mills, and grain elevators have little in common with politics.

The book is an interesting account of a social movement which has evidently gained considerable momentum and which already dominates in North Dakota and bids fair to extend into other states. The narrative, also, is a fair presentation of facts concerning an important experiment in both politics and economics.

George M. Janes.

Washington and Jefferson College.

NEW BOOKS

Andler, C. *La décomposition politique du socialisme allemand, 1914-1919.* (Paris: Giard & Brière. 1920. 6 fr.)

Beer, M. *A history of British socialism.* (London: G. Bell & Sons. 1920.)

Bendix, L. *Bausteine zur Räteverfassung.* (Berlin: Moeser. 1919. Pp. 170.)

Bovensiepen. *Wissenschaftlicher Sozialismus, Kommunismus, Anarchismus, und Bolschewismus.* (Neumünster-Leipzig: Hieronymus. 1919. Pp. 80.)

Breshkovsky, C. *Russia and the world.* (New York: Russian Information Bureau. Pp. 30. 35c.)

Cole, G. D. H. *Guild socialism.* (London: Fabian Soc. 1920. Pp. 18.)

Deville, G. *Le capital. Résumé et accompagné d'un aperçu sur le socialisme scientifique.* (Paris: Giard & Brière. 1920. 5 fr.)

Gerlich, F. *Der Kommunismus als Lehre vom Tausendjährigen Reich.* (Munich: Bruckmann. 1920. Pp. 275.)

HILLQUIT, M. *Socialism on trial.* (New York: Huebsch. 1920. Pp. 74.)

The stenographic record of Mr. Hillquit's closing address as counsel for the socialist assemblymen before the judiciary committee of the Assembly of New York.

HODGES, F. *Nationalisation of the mines.* (London: Parsons. 1920. 4s. 6d.)

HOFMAN, E. *Die Sozialisierung der Preisbildung.* (Mannheim: Haas. 1919. Pp. 27.)

HUMPHRIES, W. R. *The structure of soviet Russia, economic and political.* (Chicago: Kerr. 1920. Pp. 32.)

KARSNER, D. *Debs; his authorized life and letters from Woodstock prison to Atlanta.* (New York: Boni & Liveright. 1919. Pp. iv, 244.)

KAUTSKY, K. *The dictatorship of the proletariat.* (London: Nat. Labour Party. 1920. Pp. 160. 2s. 6d.)

LAIDLER, H. W. *Socialism in thought and action.* (New York: Macmillan. 1920. Pp. 546. $2.50.)

Part I deals exclusively with socialist thought and includes the socialist indictment, an exposition of the principal doctrines of Marxism, a description of the proposed socialist commonwealth, a discussion of guild socialism and syndicalism, a presentation of what the author conceives to be tendencies toward socialism, and a consideration of the stock objections to socialism as a reform movement. Part II is devoted to the history of socialism, and there are taken up the following topics: socialism and internationalism (1848-1914), the tendencies towards the new (third) international, the Russian Revolution, revolutions in the central empires (Germany, Austria, Hungary), socialism in other European countries since 1914, the socialist movement in America since 1914, and the socialist movement before 1914.

With characteristic vigor Dr. Laidler presents in detail the socialist indictment of the capitalistic régime, assailing the wastes of the present competitive system, the inadequacy of the machinery of production and distribution, and the exploitation of the proletariat. Nowhere has there been presented a more formidable array of statistical data to support the socialist indictment of capitalism. Footnote references to authoritative sources of statements of theory and of fact are given.

The original doctrines of Marxism, including the economic interpretation of history, surplus value and surplus labor, the class struggle, and the concentration of capital are set forth with unusual clearness. The objections to these theories are given due consideration, and the attitude of present-day socialists towards them is stated. Of especial interest is the discussion of the Russian revolution, and recent developments in European and American socialism, concerning which the data are the latest available.

Little can be said in criticism of the book as a presentation of socialist theory, since the author projects only to a very limited extent his own point of view. In this respect the discussion is not original, the author evidently preferring to appear as the historian of socialism rather than as its spokesman and prophet. Persons who are familiar with the recent developments in American socialism will hardly share Dr. Laidler's conclusion (p. 472) regarding the strategic advantage of the socialist party in American political life. There are many evidences to show that the struggle between the owners of the machinery of production and the so-called proletariat is becoming more and more centralized in the industrial field, which necessarily swings the pendulum of proletarian interest and activity away from the political arena. Imitating their Russian comrades, the radicals in the Communist Party of America and the Communist Labor Party of the United States have sensed this change of emphasis in the class struggle and, disregarding as relatively unimportant the whole field of political activity, are directing their attention to the basic industries and the unskilled proletariat. The position of the communist parties appears to be as strategic as that of the Socialist party. GORDON S. WATKINS.

MAYER, G. *Friedrich Engels. I. 1820-1851.* (Berlin: Springer. 1920. Pp. viii, 430.)

MILHAUD, E. *La marche au socialisme.* (Paris: Grasset. 1920. Pp. 306. 5 fr.)

MUCKLE, F. *Das Kulturideal des Sozialismus.* (Munich: Duncker & Humblot. 1919. Pp. 289. 15 M.)

MYERS, W. S. *Socialism and American ideals.* (Princeton, N. J.: Princeton Univ. Press. 1919. Pp. 89.)

OBEROUCHEFF, C. M. *Soviets vs. democracy.* (New York: Russian Information Bureau, Woolworth Bldg. 1920. Pp. 51. 35c.)

ONCKEN, H. *Lassalle. Eine politische Biographie.* (Stuttgart: Deutsche Verlagsanstalt. 1920.)

OWEN, R. *Life of Robert Owen, by himself.* (London: G. Bell & Son. 1920.)

POLLOCK, J. *The bolshevik adventure.* (London: Constable. 1919. Pp. xxiii, 279.)

RIHANI, A. F. *The descent of Bolshevism.* (Boston: Stratford Co. 1920. Pp. 62. $1.)

RJASANOFF, N., editor. *Gesammelte Schriften von Karl Marx und Friedrich Engels, 1852-1862.* (Stuttgart: Dietz Nachf. 1917. Pp. lxxiv, 530; xxiv, 549. 20 M.)

RUSSELL, B. *Roads to freedom: socialism, anarchism, and syndicalism.* (London: Allen & Unwin. 1920. Pp. 215. 3s. 6d.)

SPENGLER, O. *Preussentum und Sozialismus.* (Munich: C. H. Beck. 1920.)

WEBB, S. *A constitution for the socialist commonwealth of Great Britain.* (London: Longmans. Pp. 350.)

The case of the Rand School. (New York: Rand School of Social Science. 1920. Pp. 20.)

Certain aspects of the bolshevist movement in Russia. (New York: Am. Assoc. for Intern. Conciliation. 1920. Pp. 48.)

Decrees and constitution of soviet Russia. (New York: Nation Press. 1919. Pp. 89. 25c.)

Facts against socialism. (London: London Munic. Soc. 1920. Pp. 8.)

Memorandum on the bolshevist or communist party in Russia and its relations to the third or communist international and to the Russian soviets. (Washington: Supt. Docs. 1920. Pp. 49.)

Profit sharing by American employers. Examples from England; types in France. (New York: Nat. Civic Fed. 1920. Pp. 423.)

A collection of specific statements in regard to several hundred firms using profit-sharing plans. The first edition was published in 1916, but a considerable part of that volume has been omitted and supplementary matter brings the narrative of current experience down to date. One chapter deals with the attitude of trade unions.

Report on profit-sharing and labour co-partnership in the United Kingdom. (London: Intelligence & Statistics Dept., Ministry of Labour. 1920. Pp. 244.)

The truth about the Lusk committee. (New York: People's Freedom Union. 1920. 25c.)

Statistics and Its Methods

Mortality Statistics of Insured Wage-Earners and their Families. By LOUIS I. DUBLIN with the collaboration of EDWIN W. KOPF and GEORGE H. VAN BUREN. (New York: Metropolitan Life Insurance Company. 1919. Pp. viii, 397.)

This volume is a contribution to American vital statistics of national importance. It presents the detailed analysis of the mortality experience of the Industrial Department of the Metropolitan Life Insurance Company for a six-year period, 1911-1916, together with a supplement including similar data for 1917 in less detail. The study aims to furnish "a comprehensive treatment of the entire field of mortality as related to wage-earners and their families," covering more than 635,000 deaths distributed over most of the states of this country and the provinces of Canada. Added interest is given to the results because the period under consideration has been marked by a comprehensive program of

life conservation initiated by the Metropolitan Company in the interest of its policy holders. The analysis of the facts over several years forms the basis for judging progress in the health movement among the industrial population and for planning future health policies and health research. Moreover, insurance mortality statistics, of which the present study is the most comprehensive yet published, constitute a most important contribution to our knowledge of health conditions in areas where at present no other authentic data exist. In some respects the population under consideration is a selected one, but the author is careful to recognize the differences in his comparisons and analysis and to guard against false deductions.

The fact that the analysis relates to the great group of industrial workers and their families entitles this work to particular consideration. This is a field where the data furnished by public agencies, federal, state, and local, have been either lacking or especially incomplete and defective. Reference to Bulletin 207, United States Bureau of Labor Statistics, March, 1917, which sets forth the occupational mortality experience of the Metropolitan Life Insurance Company, classified by principal causes of death, will show the great variety of occupations represented in the business of the Industrial Department of the company. It seems to the reviewer that at least a summary of the material published in this bulletin might well have been included in the present volume for the convenience of the reader.

The exposure during the entire period under observation aggregated almost 54,000,000 years of life, among whom more than 635,000 deaths occurred. Almost one half of this exposure was white females; and the colored, both sexes, formed 12.5 per cent of the total. It is clear that the numbers were large enough to make possible reliable conclusions.

A noteworthy feature of this analysis of mortality is the great care taken by the Statistical Bureau of the company to establish the exact cause of death. A regular system of correspondence with the certifying physicians was established, seeking their cooperation in furnishing the kind of information necessary for an accurate statistical classification of the causes of death. By this means, during the six-year period, the death rate for "simple peritonitis" was reduced 41 per cent and for "tuberculous meningitis" was increased about 13 per cent. Appendix C of this volume shows the number of deaths charged to certain causes before

and after these supplementary inquiries from certifying physicians. The very large percentage of changed classifications furnishes convincing evidence of the importance of the above procedure in improving the accuracy of basic vital facts. In the chapter devoted to the analysis of specific causes of death frequent reference is made to the need for and the results achieved by the procedure above described, a procedure now followed by our federal Division of Vital Statistics and for many years past by the English Registrar General.

The first three chapters of the book are devoted to matters of more general interest in setting forth the scope and methods of the report and in discussing the representative character of the data and their claims to accuracy and the confidence of the reader. An analysis is first made of the combined mortality without distinction of cause, classified according to color, sex, and age. A comparison is made of the death rates of white insured persons with the death rates in the registration area of the United States, age class by age class for each sex. There appears a marked excess of mortality among the insured male wage-earners over that among males in the general population, at ages 25 years and over. It is an important purpose of the detailed analysis in succeeding chapters to offer reasons for this excess.

This raises at once the interesting inquiry as to the factors which influence industrial insurance mortality. Hazards of occupation, liability to illness, adequacy of incomes to provide proper food, housing and clothing, available medical service, urban conditions—are some of the factors which affect the industrial population in a manner different from the general population. It is fair also to raise the question as to the possible selection of the insured population in the direction of the less favorable risks among the workers. One of the most useful results of the work under review should be to suggest lines of further inquiry into the welfare of wage-earners. It is important to note that a marked decline in mortality has taken place in the insured group during the period 1911 to 1916, considerably greater than in the general population of the registration area.

The remaining fourteen chapters of the book are devoted to an analysis of the more important diseases and conditions, considered in the order of their numerical importance in causing mortality, *i.e.*, tuberculosis, organic diseases of the heart, pneumonia, Bright's disease, external causes of death (accidents, suicide and

homicide), cancer, cerebral hemorrhage and apoplexy, communicable diseases of childhood (measles, scarlet fever, whooping cough, diphtheria, and croup), diarrhea and enteritis, diseases and conditions incidental to the maternal state, and a large number of other diseases such as typhoid fever, influenza, diabetes, appendicitis, syphilis, alcoholism, pellagra and malaria, each treated in some detail. These specific causes of death are analyzed according to color, sex, and age, and the trend of mortality over the period under observation is indicated in each case.

Tuberculosis is the most important cause, accounting for over 17 per cent of all the deaths recorded by the Industrial Department of the company during the period. This disease not only disables more individuals than any other but does it at a time of life which means the disruption of families and the most serious economic losses. Yet, the available statistics on tuberculosis for the general population are far from satisfactory either for careful study or for practical health work. Therefore, the present analysis in detail according to color, sex, and age, and the various forms of the disease furnishes a valuable and much needed contribution. The striking fact that among insured males the death rate from pulmonary tuberculosis was over 30 per cent greater than for the general population emphasizes the ravages of the disease among wage-earners. An examination of the death rates over the six-year period by age groups shows the greatest relative decline at those ages where the rates are highest and where lives are most valuable to the community.

The data here presented, which show varying distributions of the death rates from pulmonary tuberculosis in the several color and sex groups, suggest that the same conditions which Dr. Brownell found in Great Britain are repeated in the United States.

Over the question as to whether cancer mortality is really on the increase much controversy has arisen. Such controversies can be settled only by observing the detailed facts over a period of years, for a fairly constant population. Moreover, cancer statistics should show the incidence of the disease in the various age periods, according to sex and color or race, and organ affected. These econditions are fulfilled in the present study; and, in addition, by inquiry of certifying physicians, special effort was made to increase the statistical reliability of the basic data. Over the six-year period the cancer death rates in this experience, for all ages combined, show no decisive upward or downward tendency.

A longer period of time and the same detailed analysis will be required to arrive at reliable conclusions. It will be observed that the rate among the colored increased more rapidly over the six-year period than for the whites. This fact may throw light on the influence of improved registration as a cause of the apparent increase in the cancer death rate.

The chapter which presents the facts as to the diseases incidental to the maternal state will prove especially suggestive and helpful to those engaged in the campaign to protect the health of mother and child. Within the child-bearing age these diseases are second in importance only to tuberculosis as a cause of death. In the main they are preventable and occur at a time of life which causes serious social loss. The facts here analyzed indicate a very important field for intensive public health work which is now being cultivated with increasing care in the prenatal work carried on by both public and private agencies. The marked decline in the death rate from those diseases in the insured experience over the six-year period has justified the policy of the Metropolitan Company in making this care of women after childbirth a major function of their nursing service from the very beginning.

The book is made up of careful, detailed analysis and conservative statement of results on the various diseases treated. The statements of the author are well supported by the facts, and the limitations of the data are frankly and adequately set forth. The plan and execution of the volume deserves favorable mention. The tables and graphic devices are simple and clear, with complete and self-explanatory headings. The order of treatment is logical and within each chapter clearly outlined. The entire work is rendered very accessible by brief chapter outlines at the beginning and a fairly detailed index. There is little occasion for the use of footnotes except to clarify and qualify the facts and terms presented, since this is a study from original data, using the federal mortality statistics for comparison with the mortality of the general population in the registration area.

It is a matter of regret that the company does not have available the figures showing the numbers of native and foreign-born persons and of the various foreign white race stocks among the insured; these facts are important in the analysis of the mortality experience.

ROBERT E. CHADDOCK.

Columbia University.

Economic Phenomena before and after War. A Statistical Theory of Modern Wars. By Slavko Secerov. Studies in Economics and Political Science issued by the London School of Economics and Political Science, No. 53. (London: George Routledge and Sons; New York: E. P. Dutton and Company. 1919. Pp. 226.)

According to the preface, this work "embodies the result of the author's search for a scientific, synthetic explanation of modern wars, by means of economic statistical data, as far as they exist, in the statistics of consumption, production, and natural growth of population in the several countries investigated."

In these times of world unrest it may seem strange to be told that "the meaning of war is a stabilization of economic phenomena," yet such is fundamentally our author's main thesis. The general theory, to the attempted proof of which he brings an impressive array of statistics, is that in normal times there is an equilibrium between production and consumption. This equilibrium is gradually destroyed on the one side by increasing population and rising standards of living, resulting in a disproportionately large production of "secondary goods" (luxuries) and a relative decrease in the production of necessaries; and on the other side by the continuous accumulation of capital in modern industrial states, which also increases the production of manufactured goods at the expense of agricultural output, and drives the agricultural communities to industrialization—thereby producing a situation in which all the great nations are at the same time pushed for room for their expanding population, and for markets for their manufactured goods in exchange for agricultural products. This situation is not exactly the cause of war, but when it is reached war is inevitable. War is thus a sort of economic catharsis.

The necessity for resort to this heroic remedy seems to lie not so much in increasing population as in rising standards of living, which, indeed, seem to be the key to the whole situation.

> As the population grows and as the consumption rises, the population cannot satisfy all the wants, on account of the difficulties of production, but a struggle has to arise in which a decision is carried out in favor of diminishing the size of families, and that means a diminution of the rate of natural increase. As the rate of natural increase diminishes the standard of living and the consumption per head rises. Now if there is a steady and continuous decline in the rate of natural growth of consumption, war is probably approaching (p. 188).

The conflict of nations is a struggle to maintain these rising standards.

Further, as rising standards mean more demand for secondary goods, and their production proceeds at a pace disproportionate to the production of primary goods, or subsistence, and as the effects of this disproportionate production are cumulative, a slackening of commerce in foodstuffs is inevitable, which brings a rise in their prices. Rising prices ought to bring an intensification of agriculture, but statistics do not, in the author's opinion, appear to show it. On the contrary, "intensive production of secondary goods leads to extensive cultivation." Then enter the significant facts that few countries have an excess of cereals for export, and that increase of cereal land means decreased animal production.

> As regards extensive cultivation and war equilibrium, the meaning of war for industrial communities is to supplement their area of production of secondary goods by an area of production for primary goods. So war is effecting a prolongation of extensive cultivation and a delay in intensive cultivation. . . .
>
> As the industrialization of modern communities advances, the supplementary areas become scarcer, and it is more difficult to subdue them without touching the interests of other industrial communities and therefore a world-wide conflagration is approaching, and it came in 1914 (p. 191).

The author makes no attempt to analyze specifically the motives operative in the late war, and it is perhaps well for his theory that he does not. For it would be difficult to make out for instance that France wanted Alsace-Lorraine or the Sarr Valley because of their agricultural resources. Yet some ill-defined, though powerful, tendencies, such as he suggests may have been operative.

The theory presented is in part eclectic. It recognizes the part played by expanding population, thus taking a leaf out of classical political economy. But it refuses to grant a place to the law of diminishing returns as a significant part of the causal nexus. Whether this refusal reveals the influence of Professor Cannan, or a feeling that the socialistic explanation is nearer the truth, we cannot say; but the other part of the theory—that relating to the accumulation of capital, increased consumption of luxuries, and international struggle for markets—is more akin to acute socialist analysis than to anything based on Malthusian postulates.

The book is deficient in organization and difficult to read. The theory is presented in outline. Several chapters of statistical evi-

dence follow, but they are not well coördinated with the theory, and only the closest attention through masses of detail can enable the reader to guess what it is all about—until he arrives at the conclusion and is given another summary of theory. The reader comes through with a sense of disappointment, for despite the array of statistical data (mainly reduced to index numbers) the whole thing has an air of unreality. A different handling might have avoided this, for the main outlines of the theory are probably correct. It is only when the author regards war as an effective remedy that fundamental doubt arises.

A few points of adverse criticism as to method may be noted. There is a considerable amount of scholastic ballast. The entire chapter (ch. 2) on the nature and meaning of equilibrium should have been omitted. It contributes nothing of value. So also with the mathematical formula concerning the relation between the marriage rate and economic conditions (p. 48). The statistics of marriage rates are inadequate. There is no critical discussion of the reliability of the statistical data on which the index numbers of production are based. Increases and decreases are sometimes so slight that they might be due to a variety of statistical errors, yet the author accepts them at their face value. There is a probable overestimate of the increase of consumption, because no allowance is made for the developing fullness and greater accuracy of production statistics during the past few decades.

Despite these shortcomings, the book may be regarded as one of the best attempts yet made at an inductive, scientific analysis of the economic causes of war. At least it must receive careful attention on the part of the student of population. It also represents a noteworthy attempt to bring statistics and theory into functional correlation.

There is a useful bibliography.

A. B. Wolfe.

University of Texas.

NEW BOOKS

Meerworth, R. *Einleitung in die Wirtschaftsstatistik.* (Jena: Fischer. 1920. Pp. iv, 329.)

Secrist, H. *Readings and problems in statistical methods.* (New York: Macmillan. 1920.)

Trabue, M. R. and Stockbridge, F. P. *Measure your mind.* (Garden City, N. Y.: Doubleday, Page. 1920. Pp. 349.)

VINCI, F. *L'esito dei conflitti di lavoro dal punto di vista statistico.* (Rome: Athenaeum. 1920. Pp. 19.)

Annuaire statistique de la France, 1916-1918. (Paris: Giard & Brière. 1920. 15 fr.)

El movimento del stado civil y la mortalidad de la Republica Oriental del Uruguay en el ano 1918. (Montevideo: Dirección G. del Registro del Estado Civil. 1920. Pp. 77.)

Electric railways. Census of electrical industries, 1917. (Washington: Bureau of Census. 1920. Pp. 177.)

First annual report of the Dominion statistician for the fiscal year ended March 31, 1919. (Ottawa: Bureau of Statistics. 1920. Pp. 52. 5c.)

Mortality statistics, 1918. Bureau of the Census, bull. no. 141. (Washington: Supt. Docs. 1920. Pp. 92.)

The official yearbook of New South Wales, 1918. (Sydney: Gov. Statistician. 1920. Pp. 754. 2s. 6d.)

Report and resolution at the first conference of government officers engaged in dealing with the statistics of the British Empire. (London: H. M. Stationery Office. 1920. 6d.)

Special tables of mortality from influenza and pneumonia in Indiana, Kansas, and Philadelphia, Pa., September 1 to December 31, 1918. (Washington: Bureau of Census. 1920. Pp. 181.)

Statistischer Atlas zum Welthandel. (Berlin: S. Zuckermann. 1920.)

Statistics of municipal finances, November 30, 1917-March 31, 1918. (Boston: Mass. Bureau of Census. 1919. Pp. 305.)

Statistical yearbook of Quebec, 1919. Sixth year. (Quebec: Bureau of Statistics. 1920. Pp. 666.)

DOCUMENTS, REPORTS, AND LEGISLATION

Industries and Commerce

Farm Land Values in Iowa. The value of Iowa farm land increased $63 per acre, or 33 per cent, from March, 1919, to March, 1920. The period of greatest activity in buying and selling, conveniently designated as the period of the "boom," was from March to September, 1919. In order to determine the causes for this unusual increase in land value and to estimate the probable effects of the boom upon the farming industry of the state, the United States Department of Agriculture and the Iowa Agricultural Experiment Station collaborated in an intensive study of the situation in sixty Iowa counties.

The land boom was not peculiar to Iowa; there was an upward trend in land values in the country as a whole during the same period amounting to 21 per cent. In fact, although Iowa led in per acre increase, there were a number of states in which the percentage increase was greater. The investigation was confined to Iowa in order to limit the area so as to make the survey reasonably intensive. Data concerning 1414 actual sales were secured from real estate men, bankers, lawyers, and retired farmers who had participated in the drawing up of sales contracts. The conclusions drawn in the report were based on these sales supplemented by data on farm earnings on about 400 farms, secured from farm management surveys previously made by the Iowa Experiment Station.[1]

The study of farm incomes revealed the fact that the primary cause of the boom was the marked increase in farm incomes, as a result of war prices for farm products. Land values, although advancing during the war, had lagged behind the increase in net earnings. It required some time for the fact of increased earnings to be reflected in advancing land prices. Moreover, heavy investment in Liberty bonds, and absence of farm boys in the army were contributing factors in retarding the demand for land. On the other hand, the larger earnings had increased the uninvested funds in the hands of the farmers and were thus responsible for the boom in still another way. The prevailing credit conditions were also favorable to the increased buying.

The movement, once started, increased of its own momentum. Many persons who had hoped to become landowners hastened to buy before

[1] In spite of this limitation on the area covered the study was based on rather incomplete data. The total number of all sales in the counties surveyed is not given but the total for the state was estimated at 19,600 farms. It is to be regretted that the conclusions reached are not supported by somewhat fuller data.

prices rose higher. The supply of land came largely from landowners who believed it a good time to realize a high price for their farms. But the supply was increased by the desire of nearly one third of the buyers to sell again as soon as they had realized a substantial speculative profit. Professional boosters and land dealers did all they could to intensify the excitement, sometimes stimulating it with fictitious sales. Stories of land selling at unheard of prices were widely heralded in the newspapers. Accounts of the large profits being made by reselling land were circulated and added their share to the excitement.

The investigators found, however, that there was a great deal of exaggerated newspaper publicity given to sales made at extreme prices. The impression became current that $400 was the going value of Iowa land. The study showed that 80 per cent of the sales ranged from $150 to $350 per acre and that less than 5 per cent were for $400 an acre or more. In most cases where unusual prices were paid (one instance of 10 acres at $900 per acre was noted) the farms were small and had considerable residential value.

In the same way there was found to be considerable exaggeration as to the extent of buying and selling during the period of the boom. Contrary to the popular belief, less than 10 per cent of the farms of Iowa were actually sold during the year. About 67.7 per cent of these farms were sold but once, 25.5 per cent were sold twice, 4.7 per cent were sold three times, and 2.1 per cent were sold four times or more between January 1 and September 1, 1919.

Analysis of the occupations and intentions of the buyers and sellers indicated that farmers were more active as buyers than as sellers of farms, constituting 65.3 per cent of the former and 57 per cent of the latter. This indicates that the immediate result of the boom will be to increase the proportion of land-owning farmers. For the purpose of ascertaining the extent to which speculative motives influenced the activity, a classification was made of the intentions of buyers and the motives for selling. Over one fourth bought with the definite intention of reselling. To those who bought primarily for speculation, could be added a considerable number who were in a position to occupy the land but were also quite willing to resell. Nearly one third of the sellers gave as their primary motive the desire to realize a speculative profit.

The terms of the sale contracts were found to conform quite generally to the established custom. A small initial payment was made at the time of purchase in order to bind the deal. Possession of farms was to be given March 1, at which time the full settlement was

made. The total cash payments, including the initial and March 1 payments, averaged 40.7 per cent of total consideration involved. About 10 per cent of the sales were fully paid in cash, the remaining 90 per cent involved mortgage indebtedness. The average amount of all classes of mortgages was 64 per cent of the sale price of the farms mortgaged. In more than 13 per cent of these cases the mortgage indebtedness was 80 per cent or more. The duration of the mortgages was from one to thirty three years with five and ten years the ruling periods. The average duration of first mortgages was 7.7 years and second mortgages was 6.6 years. The prevailing interest rates on first mortgages were 5 per cent and 5½ per cent, the average being 5.3 per cent. The rate on second mortgages was only slightly higher, averaging 5.7 per cent.

The analysis of farm earnings shows that for many years there has been a tendency to capitalize land in Iowa, as well as other prosperous farming regions, at less than 5 per cent. Cash rentals on 114 farms in 1912 were shown to have returned only 2.3 per cent to the landlord. In 1918 the landlord's return, as shown by data collected in 49 counties, was only 2.71 per cent of the land value. Owners operating their own farms were able to make a somewhat higher return than was secured by those who rented them to others for a cash rental. But even in these cases the average return to owners in the Tama district was only 3.93 per cent in 1913 and 4.99 per cent in 1918. The earnings of 1918, however, would represent only 3.5 per cent on the basis of the land value of August, 1919.

By various methods of analysis it is shown that the operating incomes of the tenants have been higher in proportion to capital invested than those of the owner-operators. In the past, however, the increment of land value has been an important means of acquiring wealth. If the advance in land values is checked, it will not pay a tenant to become an owner under existing conditions. There is, moreover, an increased difficulty in acquiring land at the high prices. The average farm investment has become so large that the average net worth of the tenants is only about 11 per cent of the average value of the farms. Accordingly the tenant must borrow a large proportion of the purchase price. The conclusion, therefore, is "that in view of the financial undesirability as well as the almost insuperable difficulty of tenants acquiring ownership under present conditions, comparatively few tenants may be expected to change their present status, unless there occurs a marked change in conditions."

What will be the probable consequences of the boom? One imme-

diate result has apparently been an increase in the number of farmers owning the farm which they operate. The March settlement following the boom occurred without serious credit stringency. It was found that the majority of the buyers were persons of sufficient means to withstand any conditions temporarily unfavorable to agriculture. The investigators feel that it is too early to determine the ultimate economic consequences. Their conclusion is that current prices of farm land are not justified by the earning power of the land when compared with other high grade investments. This is regarded as an unwholesome condition. The tendency toward overcapitalization of land will probably accelerate the growth of tenancy. The writers urge that because of this striking increase in land values more attention be given to the future land policies of the United States.

HOWARD H. PRESTON.

Oberlin College.

The federal Bureau of Foreign and Domestic Commerce has issued: Special Agents Series:

No. 188, *Construction Materials and Machinery in Argentina and Bolivia,* by W. W. Ewing (pp. 192).
No. 190, *Advertising Methods in Argentina, Uruguay, and Brazil,* by J. W. Sanger (pp. 119).
No. 192, *Construction Materials and Machinery in Brazil,* by W. W. Ewing (pp. 96).
No. 194, *Textile Markets of Argentina, Uruguay, and Paraguay,* by L. S. Garry (pp. 151).

Miscellaneous Series:

No. 84, *Commercial Handbook of China,* Volume 2, by Julean Arnold (pp. 469).

This is an exhaustive study, in which Mr. Arnold had the coöperation of the various American consular officers as well as of Chinese investigators. There are many illustrations and maps.

No. 88, *The Economic Position of Argentina during the War,* by L. B. Smith and H. T. Collings (pp. 140).
No. 100, *Import and Export Schedules of Italy* (pp. 93).
No. 102, *The Import and Export Schedule of France* (pp. 56).
No. 103, *Annual Review of the Foreign Commerce of the United States,* 1919 (pp. 36).

The *Annual Report of the Federal Trade Commission* for the fiscal year ended June 30, 1919 (Washington, 1920, pp. 133) gives a list

of the cost reports submitted by the commission during the year 1918-1919. This covers a great variety of costs.

In connection with the general question of food, the Federal Trade Commission has published a *Report on Private Car Lines* (pp. 171). Part 1 presents a general survey; part 2, the packer car lines and their relations to the public; part 3, non-packer car lines. The development of the refrigerator car is described and there are chapters on the financial results of operation, icing stations, and the relations of the packers to the railroads.

The commission has issued also a report on the *Wholesale Marketing of Food* (pp. 68) in which there are chapters on dealers and their functions, types of markets, conditions in the wholesale marketing of produce which make for losses, survey of New York produce marketing conditions, and the wholesale marketing of perishable foods in foreign countries.

In the series of reports on the meat-packing industry have appeared: Part IV, *The Five Larger Packers in Produce and Grocery Foods* (pp. 390); Part V, *Profits of the Packers* (pp. 110); and Part VI, *Cost of Growing Beef Animals, Cost of Fattening Cattle, Cost of Marketing Live Stock* (pp. 183).

In its series of cost reports the commission has printed a volume on *Coal*, No. 4, *Alabama, Tennessee, and Kentucky—Bituminous* (Washington, 1920, pp. 210).

The *Report on the Beet Sugar Industry in the United States*, originally published in 1917, has been reprinted (pp. 164).

A further report of the Federal Trade Commission is that on *The Woolen Rag Trade* (Washington, 1920, pp. 90).

Bulletins have been received from the United States Geological Survey as follows: *Potash in 1918*, by W. B. Hicks (pp. 385-445); *Bauxite and Aluminum in 1918*, by James W. Hill (pp. 513-526); *Iron Ore, Pig Iron and Steel*, by Ernest F. Burchard (pp. 527-584); *Copper in 1917*, by B. S. Butler (pp. 723-796); *Cement in 1918*, by E. F. Burchard (566-627).

The United States Tariff Commission has printed a pamphlet entitled *Information concerning Free Zones in Ports of the United States to be used by the House Committee on Ways and Means* (pp. 115); *Information concerning Dumping and Unfair Foreign Competition in the United States and Canada's Anti-dumping Law* (pp. 45); and in Tariff Information Series: No. 10, *Cotton Venetians, Import Trade and Domestic Production* (pp. 83); No. 14, *The Incandescent Gas-*

Mantle Industry (pp. 32); and No. 15, *Costs of Production in the Dye Industry 1918 and 1919* (pp. 24).

The Department of Agriculture has issued a pamphlet on *Information concerning the United States Warehouse Act* (June 2, 1920, pp. 36).

The *Yearbook of the Department of Agriculture, 1919* contains articles on "Three centuries of tobacco," by George K. Holmes (pp. 151-176); and "Live-stock conditions in Europe," by Turner Wright and George A. Bell (pp. 407-424).

The Superintendent of Documents has issued as Price List 38, *Animal Industry* (Washington, pp. 24).

The Bureau of the Census has made its yearly report on *Cotton Production and Distribution, seasons of 1918-1919* (Washington, pp. 135).

Awards and Recommendations of the United States Bituminous Coal Commission have been printed (Washington, 1920, pp. 120). Considerable space is devoted to irregularity of employment and the shortening of the working day.

The *Proceedings of the Annual Convention of the National Highway Traffic Association and the Highway Transport Conference of the National Automobile Chamber of Commerce,* held January 29, 1920, in Chicago, contains a considerable amount of information in regard to the development of the motor truck industry (New York, National Automobile Chamber of Commerce, pp. 54).

The American Fair Trade League (Fifth Ave. Bldg., New York) is supporting a bill to protect the public against misbranding of merchandise. Copies may be had upon application.

The Institut International du Froid (9 avenue Carnot, Paris) is investigating the subject of the organization of a world-wide meat trade market and is requesting answers to a questionnaire in regard to the development of the refrigeration business in different countries.

The Bureau of Business Research, Harvard University, has prepared Bulletin No. 19 relating to *Operating Expenses in the Wholesale Grocery Business in 1919* (Cambridge, pp. 15, $1).

The Bureau of Business Research at Northwestern University School of Commerce is engaged in a study of retail costs of distributing clothing in the United States. This inquiry is undertaken by the National Association of Retail Clothiers and relates to merchandising

practices of retailers of clothing and to retail costs of distributing clothing. It is nation-wide in its scope covering the complete membership of the association and about one thousand non-members. A preliminary report is to be made on the results of this survey at the annual meeting to be held in Chicago in September, and later will be available for general distribution.

This bureau has also made a survey of the book and job printing industry for the Franklin-Typothetae of Chicago and a typewritten report with blue-print charts has been issued under date of June 15, 1920 (Chicago, pp. 66).

Corporations

The Presidents' Conference Committee, Philadelphia, Pa., has published the *Hearings* before the Interstate Commerce Commission *in re* Section 422 of the Federal Transportation Act, *ex parte No.* 71, held March 22-24, 1920 (pp. 136); also the *Testimony of Thomas W. Hulme* in the matter of the applications of carriers in official southern, and western classification territories for authority to increase rates, presented May 26 and 27, 1920 (pp. 20) and the *Cross-Examination* given July 7 (pp. 40).

The Bureau of Railway Economics has published a typewritten *List of References on Coördination of Transportation Facilities* (Washington, 1920, pp. 14).

The corporation commissioner of Oregon has compiled in a separate pamphlet *Corporation Laws of the State of Oregon* (Salem, pp. 123).

Public utility reports have been received as follows:

Eighth Annual Report of the Public Utilities Commission of Connecticut, 1920 (Hartford, pp. 811).

Thirty-fifth Annual Report of the Board of Gas and Electric Light Commissioners of Massachusetts (Boston, pp. 287, 244).

Thirty-fifth Annual Report of the Railroad Warehouse Commission of the State of Minnesota, 1919 (St. Paul, pp. 536).

Seventh Annual Report of the Public Utilities Commission of the State of Rhode Island, 1918 (Providence, pp. 256).

Labor

The federal Bureau of Labor Statistics has published the following bulletins:

No. 256, *Accidents and Accident Prevention in Machine Building,* by Lucian W. Chaney (Nov., 1919, pp. 239). This is a revision

of bulletin 216, on which there was a comment in the March, 1918, number of this REVIEW (vol. 8, p. 184).

No. 258, *Decisions of Courts and Opinions affecting Labor, 1918,* by Lindley D. Clark and Martin C. Frincke (Dec., 1919, pp. 239).

The federal Bureau of Mines has published its annual compilation of *Coal-Mine Fatalities in the United States, 1919,* by Albert H. Fay (Washington, 1920, pp. 86). It contains statistics for the entire United States.

The bureau has also published *Quarry Accidents in the United States during the calendar year 1918,* by Albert H. Fay (pp. 52).

The United States Department of Agriculture has issued Bulletin No. 814 entitled *The Standard Day's Work in Central Illinois,* by H. R. Tolley and L. M. Church (Washington, 1920, pp. 32). This relates to the amount of work that farm implements, teams, and crews can accomplish as indicated by the reports of 600 farmers in a typical farm area.

The Bureau of Railway Economics has published a typewritten list of *Some References to Material on Arbitration of Disputes between Railroad Companies and Employees by Government Boards of Arbitration* (Washington, June 28, 1920, pp. 21).

The *Seventh Annual Report of the Minimum Wage Commission of Massachusetts,* for the year ending November 30, 1919 (Boston, Pub. Doc. 102, pp. 86) describes the work of the year with recommendations for further legislation. This commission has also issued its *Second Report on Wages of Women in Corset Factories in Massachusetts* (pp. 49).

The Second Annual Report of the Minimum Wage Board of the District of Columbia, 1919 (Washington, 1920, pp. 60) contains a discussion of some of the effects of the minimum wage law. In the appendix are budgets submitted by representatives of employees in conferences.

Other reports dealing with labor are:

Hearings before the House Committee on Immigration and Naturalization relating to temporary admission of illiterate Mexican laborers, held in January and February, 1920 (pp. 376).

Tenth Biennial Report of the Commissioner of Labor and Industrial Statistics of Louisiana, 1919-1920 (New Orleans, 1920, pp. 108).

Twenty-sixth Annual Report of Factory Inspection in Rhode Island (Providence, 1920, pp. 81).

Money, Prices, Credit, and Banking

COMPARATIVE SUMMARY OF BANKING STATISTICS. Although a highly optimistic view of the present condition of the world's currency is not to be entertained, it is not out of keeping with the facts to maintain that the situation by and large has taken a turn for the better. This improvement is, however, confined to the more important Allied countries. In Great Britain, the maximum issue of currency notes for 1920 has been fixed at £320,600,000, which is approximately the amount outstanding at the end of 1919 less reserves in coin and bullion and Bank of England notes. The weekly statements indicate that the government has kept issues well within these limits.

Measures have also been adopted to arrest the progress of note inflation in Italy. It had been officially stated in the early part of the year that a goodly portion of the cash proceeds of the recent popular loan (20 billion lire having been subscribed, of which 7 billions represented new money) would be devoted toward reducing the obligations of the state to the three banks of issue. This procedure will of necessity reflect itself in the decrease of notes issued on account of the government. That the wheels of deflation have already been set in motion may be observed from the following figures: at the end of 1918, the notes of the three banks and the state notes totalled 13,874 million lire; at the end of 1919 they reached 18,552 millions; but on March 20, 1920, they declined to 17,879 million lire. With the successful flotation of the recent loan, the government redeemed its promise and early in January began to utilize the available resources for this purpose.

In France, the convention entered into by the government and the Bank of France during April of this year provides for a reduction in state loans from 27 billion francs to 24 billions before the expiration of the present year, and also for the reimbursement of the remainder to the extent of 2 billion francs each year thereafter. Aside from this arrangement, encouragement may be gathered from the recent weekly statements of the Bank of France, which indicate a decline of more than a billion francs in the outstanding circulation during the last six weeks, in comparison with the peak reached in the earlier months of the current year.[1]

Counteracting the progress made by the above countries towards the rehabilitation of their currency, there is the enormous and uninterrupted expansion in note issues taking place in central European coun-

[1] This article was written the last week of June, 1920.

tries, beside which the classic feats of John Law would pale and fall into insignificance. This statement particularly characterizes the note operations of the Reischbank, whose circulation at the present writing approximates 54 billion marks as compared with 36 billions at the end of 1919, 22 billions at the end of 1918, and 11 billions at the end of 1917. When the turning point will be reached only the future can tell.

In comparing the balance sheet of the central banks of 23 countries before the war and at the most recent date, it is discovered that notes and deposits have manifested an eightfold and fourfold rise, respectively, whereas their gold and silver holdings have increased but 77 per cent. The ratio of the first two items to the latter fell from 60.1 per cent to 13.4 per cent. Studying the figures by groups, we find the ratio for belligerents dropped from 61.2 per cent to 11.7 per cent but that for neutrals, etc., from 57.7 per cent to only 48.1 per cent. The worst effects are shown by the Central Powers with the exception of Turkey.[2] Of the larger Allied countries, Italy's banking system has experienced the greatest derangement; and of the smaller nations, Belgium shows the weakest position.

On the other hand neutral countries (inclusive of Brazil, which was an inactive belligerent) have fared far better than belligerents. Argentina, Netherlands, and Spain are the only countries in this group where the liabilities have, comparatively speaking, been outdistanced by the reserves. In the case of Brazil the decline in the ratio of the Guarantee Fund (Caixa de Conversao) is almost as dramatic as that which took place in the banks of issue of some of the Central Powers. Improvement in the financial situation of all other neutral banks of issue, is, however, to be noted. The metallic reserves of the Bank of Netherlands show an increase of 282 per cent; National Bank of Denmark, 239 per cent; National Bank of Switzerland, 213 per cent; Bank of Spain, 141 per cent; Bank of Norway, 179 per cent; Bank of Sweden, 141 per cent; and the Conversion Fund of Argentina, 59 per cent. Brazil is the only country in this group where a decline is registered of 72 per cent.

The notes in circulation of neutral banks show the following ap-

[2] The slight expansion in banknotes was due to the refusal on the part of the directors of Ottoman Bank of Constantinople to aid in financing the war by fiduciary issues. The Ottoman government was compelled to pursue a different course and issued treasury notes instead, guaranteed by German and Austrian advances, and German treasury bills. For further details see two articles of the present writer in the *Quarterly Journal of Economics*, May and November, 1919.

TABLE A.—COMPARATIVE STATEMENT OF METALLIC HOLDINGS,

(Million

BEFORE ENTERING THE WAR

COUNTRY	DATE	GOLD AND SILVER HOLDINGS	DEPOSITS	NOTES IN CIRCULATION	Ratio of Metallic Holdings to Combined Note and deposit Liabilities (per cent.)
					A. ALLIED
United States[a] .	Mar. 30, 1917	947	707	357	89.0
Great Britain . .	July 29, 1914	186	327	145	39.4
France	July 30, 1914	920	257	1290	59.5
Italy[b]	July 31, 1914	288	41	421	62.3
Russia . . .	July 8-21, 1914	937	566	842	66.5
Japan	Aug. 1, 1914	109	76	163	45.6
Belgium	July 30, 1914	61	24	216	25 4
Greece	Mar. 13, 1914	45[d]	45	44	50.6[d]
Rumania . . .	Mar. 29, 1914	41	5	84	46.1
Portugal	Mar. 31, 1914	18	8	90	18.4
Finland	Mar. 31, 1914	7	5	23	25.0
Total, Allied Powers .		3559	2061	3675	62.0
Germany	July 23, 1914	402	225	450	59 6
Austria-Hungary . .	July 30, 1914	312	59	432	63.5
Turkey	Dec. 31, 1913[c]	21	70	5	28.0
Bulgaria	Mar. 31, 1914[c]	25[d]	44	36	31.3[d]
Total, Central Powers . .		760	398	923	57.5
Total, Active Belligerents		4319	2459	4598	61.2
					C. NEUTRALS AND
Argentina	Mar. 31, 1914[c]	224		342	65.5
Brazil	Mar. 31, 1914[c]	125		175[g]	71.4
Denmark	July 31, 1914	21		42	50.0
Netherlands	July 25, 1914	68	2	125	53.5
Norway	July 31, 1914	14	4	33	37.8
Spain	July 24, 1914	246	96	370	52.8
Sweden	July 25, 1914	29	18	56	39.2
Switzerland	July 23, 1914	38	10	52	61.3
Total, Neutrals and Inactive Belligerents		765	130	1195	57.7
GRAND TOTAL		5084	2589	5793	60.1

A. Figures for the Federal Reserve System.

B. Figures for the three banks of issue. In the gold and silver holdings there are included also legal tender notes.

C. Figures taken from L'Economiste Français, July 4, 1914, p. 13.

D. Includes "funds held abroad" which consists principally but not entirely of specie. Because the latter can not be segregated, the whole amount is counted in the metallic holdings, which are consequently overstated. This situation is also

OSITS AND NOTE CIRCULATION OF PRINCIPAL BANKS OF ISSUE

ars)

COUNTRY	DATE	AT MOST RECENT DATE: GOLD AND SILVER HOLDINGS	DEPOSITS	NOTES IN CIRCULATION	Ratio of Metallic Holdings to Combined Note and deposit Liabilities (per cent.)
ERS					
United States [a]	July 16, 1920	2119	1687	3136	43.9
Great Britain	July 14, 1920	598 [f]	872	605 [f]	40.5 [f]
France	July 15, 1920	1126	611	7252	14.3
Italy [e]	Feb. 10, 1920	223	152	2974	7.1
Russia	Oct. 16-29, 1917	1948	1779	9457	17.3
Japan	May 15, 1920	459	756	590	34.1
Belgium	June 24, 1920	69	391	997	5.0
Greece	May 13, 1920	294	256	268	56.1
Rumania	May 1, 1920	293	415	875	22.7
Portugal	May 5, 1920	29	41	438	6.1
Finland	June 15, 1920	8	17	234	3.2
l, Allied Powers		7166	6977	26821	21.2
ERS					
Germany	June 23, 1920	260	2756	12294	1.7
Austria-Hungary	Mar. 7, 1920	58	1295	12148	0.4
Turkey	Dec. 31, 1918	46	80	12	50.0
Bulgaria	Feb. 29, 1920	10	192	581	1.3
l, Central Powers		374	4323	25035	1.3
l, Active Belligerents		7540	11300	51856	11.9
CTIVE BELLIGERENTS					
Argentina	May 26, 1920	455		578	78.7
Brazil	May 31, 1920	31		568 [g]	5.5
Denmark	May 31, 1920	61	10	138	41.2
Netherlands	June 28, 1920	261	58	404	56.5
Norway	June 15, 1920	40	38	118	26.5
Spain	June 26, 1920	593	224	747	61.1
Sweden	June 26, 1920	70	74	181	27.4
Switzerland	June 23. 1920	120	23	171	61.9
al, Neutrals and Inactive Belligerents		1631	427	2900	49.0
AND TOTAL		9171	11727	54756	13.8

reflected in the ratio of metallic holdings to note and deposit liabilities being higher than it would have otherwise been.

E. Figures taken from Mouvement Economique, April, 1914, p. 316.

F. If the currency notes reserve of $189,000,000 were taken into consideration, the metallic holdings would be swelled by that amount but the ratio would decline to one-half the figures given in the table owing to the great amount of currency notes issued against the reserve.

G. Both convertible and inconvertible notes.

proximate percentages of increase: Norway, 252; Switzerland, 242; Netherlands, 237; Denmark, 233; Sweden, 229; Spain, 103; Argentina, 45. Brazil increased its outstanding notes (including inconvertibles) from 175 millions to 568 millions, or an increse of 225 per cent. The following table (Table A) summarizes the reserve and currency situation of twenty-three principal countries before the war as compared with the most recent date for which figures are available.

In connection with the above figures a word of warning is in place. The data therein contained relate only to the central banks of issue, with the exception of Italy where the status of all three banks of issue is reflected. In the United Kingdom there are the English private banks, and the Scotch and the Irish banks of issue, whose note operations are of importance; in Germany there are the four other banks of issue. But of greater consequence is the fiduciary circulation issued by the treasuries of the various governments, and the emergency circulating media issued by the new agencies created as a result of the war. In the United Kingdom there are the currency notes; in Germany and Switzerland, loan-bank notes (Darlehnskassenscheine); in Italy, treasury notes and "greenbacks"; and in Japan, exchequer notes. Moreover the prodigious amount of paper currency issued by the Bolshevist government and other independent governments in various parts of Russia has been omitted from the above tabulation. Accordingly a table is here presented (Table B) comparing the total note circulation before the war, in both per capita and absolute figures, with that at the most recent date, as far as data permit.

With the fact borne in mind that the figures for *total* note circulation are necessarily incomplete, it will be observed from the above tabular summary that the total note circulation has increased more than fifteen-fold for all countries. The belligerent group as a whole shows a gain of more than eighteen times the pre-war circulation, the total note circulation of Allied countries increasing approximately seventeen-fold and that of the Central Powers, twenty-eight-fold. Neutral countries show a rise of only 143 per cent. Turkey leads all the belligerents in its percentage of increase. In the Allied group, Russia comes first, with Rumania, Great Britain, and Finland following more or less closely. Belgium displays the lowest percentage of increase, if no account is taken of the German marks in circulation.

Of the neutral countries, Argentina ranks lowest and Norway highest. The largest percentage which is 242.4 for Norway, still falls short of the lowest figure in the group of belligerents, namely, 341.7 for Japan. It suffices to state that in no case is the increase in total

note circulation greater than two-and-one-half-fold approximately, and the general average rise less than one and one half the pre-war figure.

Although Argentina showed the largest pre-war circulation per capita, the increase at the most recent date has been comparatively slight. The neutral countries as a group, including Brazil, record a per capita circulation of notes almost twice that of belligerents before the war, whereas the tables are reversed at present with the latter outdistancing by far the figures of the neutral group.

Summary of Banking Changes in Neutral Countries during the War:

BRAZIL: After the outbreak of the war the Conversion Fund[3] (*Caixa de Conversao*) was closed and convertible notes were thus made inconvertible. Later the two classes of currency were abolished and the Ministry was authorized to issue 60 million milreis of treasury notes in substitution for a like amount of convertible notes held by the government. Simultaneously the gold reserves against the convertible notes thus extinguished were transferred to the Guarantee Fund which heretofore applied to inconvertible notes. By this process the government made the gold in the Conversion Fund serve as a reserve against convertible and inconvertible notes alike.

DENMARK: Before the war a 50 per cent metallic cover against note liabilities was required of the National Bank of Denmark, but an amendment of March 31, 1915, lowered the percentage to 33 1/3.

NETHERLANDS: The extraordinary demands for currency and loans of the opening of hostilities forced the Bank of Netherlands to obtain a royal decree lowering the metallic reserve requirements to 20 per cent. On October 6, 1914, the reserve percentage had fallen to 32.6, but it rallied until it reached 43.1 on December 24, 1914, and continued to rise more or less steadily to 71.7 by the end of 1915, 72.3 in 1916, and 73.9 in 1917.[4]

[3] This fund was established December 26, 1906, primarily for the purpose of issuing convertible notes on the basis of gold on deposit. Before the war, it was required to cease issuing notes when the total circulation at the rate of 16 pence per milreis reached 900 million milreis (gold milreis = $0.5463) and the gold on deposit in the fund amounted to 60 million pounds ($291,990,000). Whenever a withdrawal of gold was occasioned, the Caixa could receive gold and issue convertible notes therefor.

[4] For a study of banking in belligerent countries, the reader is referred to an article of the writer appearing in the *Quarterly Journal of Economics*, November, 1919, entitled "Debt, Revenues, and Expenditures, and Note Circulation of Principal Belligerents." The latter has also been reprinted by the Bankers Trust Company of New York City under the title "Financial Status of Belligerents" and is available to readers of the REVIEW upon request.

TABLE B.—TOTAL NOTE CIRCULATION

(Million Dollars)

Country	Total Note Circulation Before the War (A)	Per Capita (dollars)	Total Note Circulation at Latest Date	Per Capita (dollars)	Percentage of Increase in Note Circulation
A. ALLIED POWERS					
United States	715	6.70	4,017 (B)	37.09	461.8
Great Britain	223	4.84	2,616 (C)	56.76	1,073.1
France	1,290	32.49	7,252	182.67	462.2
Italy	518	14.11	3,593 (D)	97.86	593.6
Russia	842	4.62	50,156 (E)	280.34	5,856.5
Japan	163	2.81	720 (F)	12.41	341.7
Belgium	216	28.21	2,059 (K)	268.87	853.2
Greece	44	8.89	268	54.14	509.1
Rumania	84	11.19	2,608 (J)	347.36	3,004.8
Portugal	90	15.11	433	72.68	381.1
Finland	23	6.97	234	71.41	917.4
Total, Allied Powers	4,208	8.51	73,956	148.79	1,657.5
B. CENTRAL POWERS					
Germany	538	7.93	15,720 (G)	231.82	2,821.9
Austria-Hungary (H)	432	8.25	12,148	231.97	2,712.0
Turkey (H)	5	0.24	726 (L)	34.13	14,420.0
Bulgaria	36	6.52	581	105.29	1,513.9
Total, Central Powers	1,011	6.88	29,175	198.51	2,785.8
Total, Active Belligerents	5,219	8.14	103,131	160.14	1,876.1
C. NEUTRALS AND INACTIVE BELLIGERENTS					
Argentina	342	41.28	578	69.77	69.0
Brazil	175	6.59	568	20.67	224.6
Denmark	42	14.38	138	46.92	228.6
Netherlands	125	18.99	404	60.07	223.2
Norway	33	13.15	113	42.93	242.4
Spain	370	17.85	747	35.84	101.9
Sweden	56	9.73	181	31.20	223.2
Switzerland	52	13.40	173 (M)	43.94	232.7
Total, Neutrals, Etc.	1,195	15.48	2,902	36.90	142.8
GRAND TOTAL	6,414	8.93	106,083	146.73	1,553.1

A. Unless otherwise noted, the source and composition of the figures given for belligerents are identical with those given in a similar table, appearing in the *Quarterly Journal of Economics*, November, 1919, to which the reader is referred.

B. Includes circulation as of July 1, 1920, consisting of federal reserve notes, $3,122 millions; federal reserve bank notes, $199 millions; and national bank notes, $696 millions.

C. Includes Currency notes, as of June 30, 1920, £357,356,000; Bank of England circulation as of July 14, 1920, £124,238,000; and average circulation of Scotch and Irish banks of issue, for the month ended April 17, 1920, and the average circulation of the English private banks for the month ended May 1, 1920, total of the latter two items, £56,034,513.

D. Includes notes of the Bank of Italy (May 10, 1920), 12,619 million lire; notes of the Bank of Naples and the Bank of Sicily (Feb. 10, 1920), 3,466 millions; State notes (Mar. 20, 1920), 2,271 millions; and Treasury notes, 261 millions.
E. Composed as follows: Notes before the Revolution, 9,950 million rubles; "Kerensky" notes, 8,967 millions; issued by the Soviet Government from October, 1917 to December 31, 1918, 36,353 millions; notes issued thereafter on the basis of 2½ billions per month, according to Pravda (*cf. London Economist,* June 28, 1919).
F. Includes notes of the Bank of Japan as of May 15, 1920, 1181 million yen; Bank of Taiwan, 103 millions (June 30, 1919); Bank of Chosen, 40 millions (June 30, 1919); exchequer notes, 120 millions (as of Sept. 30, 1919).
G. Includes Reichsbank notes, June 23, 1920, as per preceding table; loan bureau notes, as of May 7, 1920, 13,804 million marks; Treasury notes, 321 millions; and also the average circulation for 1919 of other banks of issue, 271 millions (Cf. Conrad's *Jahrbücher für Nationalökonomie und Statistik,* March 1920, p. 1042).
H. Former boundaries.
J. Consists of circulation of National Bank of Rumania, May 1, 1920, as per preceding table; notes issued by the Banque Générale Roumaine during German occupation, 2,105 million lei; and foreign currencies (4 billion crowns and 1 billion rubles) circulating in the newly-annexed territories. *Cf. Basler Nachrichten,* May 5, 1920.
K. Includes German marks in circulation.
L. Total note circulation, including exchequer issues.
M. Includes loan bureau notes of May 31, 1920, 10 million francs.

NORWAY: The law of April 23, 1892, permitted the Bank of Norway to issue notes up to 100 per cent of the gold reserve (of which one third could be held abroad, plus 3 million kroner in foreign state banks), and in addition 24 million kroner uncovered by specie. Later by the act of May 31, 1905, the uncovered portion was raised to 35 millions. During the war the reserve requirements were altered and the issue of notes was limited to the following amounts: (1) the stock of gold coin and bullion in the vaults of the Bank of Norway; (2) available balance abroad up to one half the stock of gold; (3) balances in the Bank of Sweden and the National Bank of Denmark up to 6 million kroner, and (4) an amount of 70 million kroner in excess of the stock of gold. In addition the provisions regarding the disposition of profits of the Bank of Norway underwent change in July, 1916. Instead of 6 per cent as heretofore, the shareholders are allowed 9 per cent; then the state participates to the extent of 3 per cent. Of the remainder, four fifths reverts to the State and one fifth to the shareholders.[5]

[5] Owing to heavy shrinkage of the gold reserve, the Bank of Norway suspended payments of gold specie under a royal decree issued March 19, 1920. It is provided, however, that within the discretion of the bank sales may be made for industrial purposes at bullion value. *Cf. Commerce Reports,* April 1, 1920.

Spain: The law of May 3, 1902, prescribed the following reserves against notes:[6] (1) from 1,200 to 1,500 million pesetas, a specie reserve of 33 1/3 per cent, at least one half of which must be gold; (2) from 1,200 to 1,500 million pesetas, a specie reserve of 60 per cent, of which two thirds must be gold as a minimum; and (3) from 1,500 to 2,000 million pesetas, a specie reserve of 70 per cent of which five sevenths must be gold. Thus before August, 1914, the banking law permitted a maximum issue of 2,000 million pesetas, covered by a metallic reserve of 930 millions, of which 570 millions or more had to be in gold and 360 millions or less in silver. After the outbreak of the war the note limit was raised to 2,500 million pesetas and the law required that the excess over 2,000 millions be covered by specie, without naming gold or silver. Legislation of later date augmented the note issues on four different occasions from 2,500 to 4,500 million pesetas and at the same time required a cover, peseta for peseta, in gold. Due to peculiar conditions arising out of the war, the Bank of Spain labored under a plethora of gold and was able to amass a very large stock of the yellow metal. It managed to maintain its advantageous position while other neutral banks of issue that had waxed rich with the precious metal were beginning to feel the effects of after-war adjustments in the banking world.

Sweden: Owing to rapid withdrawals of gold and heavy expansion of notes in circulation, the Bank of Sweden was forced to suspend specie payment at the outbreak of the war. On April 2, 1915, an amendment to the banking laws made this procedure in times of emergency. During the early part of the war period the flow of gold was so rapid that the bank which was required to purchase gold at a fixed price and had no alternative but to issue notes in return (since gold did not circulate), applied to the government for relief. On February 8, 1916, an act was passed freeing the bank of this obligation in times of emergency or extraordinary circumstances, and at the same time suspended free and unlimited coinage of gold. This action was concurred in by the governments of Denmark and Norway, since the success of this measure in Sweden depended upon the coöperation of the other two Scandinavian countries with which its financial operations are closely interwoven.

Switzerland: The Federal Council established loan banks modeled after the German prototype (*Darlehnskassenbanken*) in accordance with the law of September 9, 1914. Circulation of these emergency notes began in November, 1914, reaching their high level on October

[6] The banking law requires no specie reserve against deposits.

31, 1915, with a total of 37 million francs. Thereafter the volume of notes began to dwindle up to the middle of 1918 when a rising tendency was again manifested for a short while, only to continue their downward course in 1919. Recently the Federal Council has had under consideration proposals bearing on the reorganization of the Swiss National Bank. Chief among the proposals are: (1) to give the Bank power to issue notes of denomination other than 50, 100, 500 and 1,000 francs at any time that scarcity demands such procedure; (2) in the future to allow foreign sight bills to be accepted in the cover for banknotes; (3) the fixed metallic cover of 40 per cent to be reduced to 33 1/3 per cent provisionally in case of necessity; (4) the annual allocation to the reserve funds to be limited to a maximum of 2 per cent of paid-up capital; and (5) the bank dividend to be fixed at 4 per cent per annum with provisions for increasing it to 5½ per cent under certain circumstances.

Louis Ross Gottlieb.

Bankers Statistics Corporation, New York City.

There has been issued as Senate Document No. 184, 66th Congress, 2d Session, a letter from the governor of the Federal Reserve Board on *State Banks in Federal Reserve System,* under date of January 26, 1920 (Washington, pp. 36); and as No. 262, a letter on *Rates of Interest on Collateral Call Loans,* under date of March 27, 1920 (pp. 55).

A letter from the Postmaster General to the Committee on the Post Office and Post Roads relates to the *Operations of the Postal Savings System* for the year ended June 30, 1919 (66 Cong., 2 Sess., pp. 44).

There has recently been printed *Hearings,* before the subcommittee of the House Committee on Banking and Currency, *on Standard Silver Dollar,* held in January and February (pp. xxvii, 15, 24).

The *Report of the Commission on the Necessities of Life,* published as Massachusetts House Document No. 1500 (Boston, Feb., 1920, pp. 182) is a thorough survey of the subject. There are chapters on: war and the cost of living; general effects of increased prices; various elements comprising the necessities of life, with subdivisions under food, clothng, rents and housing, fuel and lighting, and sundries, with many statistical appendices.

The following state bank reports have been received:

Thirteenth Annual Report of the State Bank Commissioner of Colorado, 1919 (Denver, pp. 278).

Seventh Annual Report of the Banking Commissioner of Kentucky, 1918-1919 (Frankfort, 1920, pp. 151).

Annual Report of the Board of Bank Commissioners of New Hampshire for the year ending August 31, 1919 (Concord, pp. 428).

Twelfth Annual Report of the Bank Commissioner of Rhode Island, 1919 (Providence, pp. 221).

A compilation has been made of *Banking Laws of the State of Alabama* as in effect January 1, 1920 (Montgomery, pp. 43); also of the *Laws relating to State Banks and Trust Companies, Savings Banks and Industrial Banks, Building and Loan Associations and Investment Companies of Connecticut, 1919* (Hartford, 1920, pp. 168).

Public Finance

The Commission to Investigate the Laws of New Jersey has submitted its report (Trenton, 1920, pp. 40). The usual criticism is made of the general property tax and there is discussion of the remedies for the classification of personal property and of the substitution of a personal income tax in place of the personal property tax. The commission recommends a tax upon business to be levied upon the net income. Several pages are given to the subject of assessment and of improvements which can be made.

The Board of Tax Commissioners of Rhode Island has compiled in a separate pamphlet *Laws Relating to Taxation* as existing in 1919 (Providence, pp. 171).

The following annual reports of state tax commissions have appeared:

Fourth Annual Report of the State Board of Taxes and Assessment, for the year ending June 30, 1919 (Trenton, pp. 384).

Annual Report of the State Tax Commission, 1918 (Albany, 1919, pp. 531).

Report of the Tax Commissioner of Massachusetts, for the year ending November 30, 1919 (Boston, pp. 204).

Fourth Annual Report of the South Carolina Tax Commission, 1918 (Columbia, 1919, pp. 114).

Annual Report of the Tax Commission of the State of South Dakota, 1918-1919 (Pierre, pp. 108).

Eleventh Annual Report of the Tax Commissioner of Texas, 1919 (Austin, pp. 95).

The June, 1920, bulletin on *State Finances,* published by the Tax

Commissioner of New York is entitled "Transfer (Inheritance) Tax Number—Hetty Green Victory" (pp. 16).

The Equitable Trust Company has issued a pamphlet on the *New York State Transfer Tax Law* (New York, pp. 45).

A compilation has been made of the Wisconsin tax laws relating to *Assessment and Collection of Taxes* (Madison, Wisconsin Tax Commission, 1920, pp. 221).

The Bureau of Government Research of the University of Texas has published a series of sheets on *Tax Rates and Taxable Values in Texas Cities.* This is a summary of the answers received from a questionnaire to Texas cities, a statement of the constitutional provisions regarding local taxation together with the proposed constitutional amendments relating to local taxation, and the proposed constitutional amendments relating to local taxation to be voted on November 4, 1920.

Insurance

Marine Insurance. An interesting document dealing mainly with marine insurance has appeared recently in connection with the report of the congressional subcommittee on merchant marine and fisheries. It is entitled *Report on Status of Marine Insurance in the United States, including the Recommendations of the Subcommittee on Merchant Marine and Fisheries* (Washington, 1920, pp. 100). The report proper was prepared by Professor S. S. Huebner, expert in insurance to the United States Shipping Board and the Committee on the Merchant Marine and Fisheries. Professor Huebner is also well known as the author of textbooks on insurance. Among the subjects discussed in the report are the economic importance of marine insurance; volume and classification of the business; extent of foreign control; reinsurance agreements; marine underwriters' associations; and rate making. Attention is directed to the service of marine insurance as a fundamental instrument of commerce—as a national commercial weapon. In line with opinions recently voiced from other quarters, Professor Huebner points out that the necessary servants of exports and importers are banking, shipping, and insurance, the latter fulfilling the very vital purpose of protecting and stabilizing the banking, commercial, and shipping factors.

That the British have long realized the advantage of coördinating the instruments of commerce and that they have acted accordingly is recounted by the writer:

Appreciating the numerous property and credit connections that radiate from the leading shipping, banking, and insurance interests at practically every center of foreign trade, British commercial interests have long realized the advantages of coöperation between these three complementary factors, since each can be made to serve and hasten the growth of others. Not only have the British insurance companies been encouraged to unite into huge combinations through actual consolidation or community of interests, but they have been permitted, unlike the practice of this country, to write numerous kinds of insurance with a view to reducing their overhead expenses, to enlarging their underwriting facilities to the utmost, and to enabling them to meet the full insurance needs of their clients. Nor is there the slightest hesitancy in coöperating with other commercial agencies to acquire business. English bankers throughout the world, for example, have arrangements with English insurance companies whereby they provide insurance for their clients—fire insurance to protect their loans on goods while in process of production, and marine insurance to protect their loans when the goods are ready for export. Consult the directorates of British insurance companies and it becomes clear how judiciously the leading shipping, banking, and commercial interests are represented. And then consult the directorates of leading shipping, banking, and commercial interests, and it again becomes clear how judiciously the insurance interests are represented. Each factor helps the others through a proper association of business interests, until the whole foreign trade equipment—shipping, banking, and insurance—is judiciously knit together into one great force capable of pursuing a united and intelligent policy.

The benefits arising from such united action are considered and they include, among others, the power thus given in the preëmpting of leading lines of trade; the advantage of having underwriting facilities always available; the facility in adjustment of losses; and the proper safeguarding of commercial information. In the light of such advantages the writer takes the ground that there is no reason why the United States, with its great wealth and the facilities available, should allow two thirds of its marine insurance business to flow into foreign hands, as is now the case.

The recommendations of the subcommittee covered six pages and are far reaching and ambitious in scope. They are based, it would seem, upon the idea that there is a pressing necessity for foreign trade development on the part of this country and that American marine insurance, controlled by citizens of this country, is a necessary and effective part of the machinery for developing foreign trade. As stated (p. 75):

All evidence leads to the conclusions that a strong and independent national marine insurance institution is an absolute necessity to a nation's foreign trade equipment, that such an institution does not exist in the United States today, and that it is imperative to adopt ways and means to correct the present impossible situation if this country is to meet the strenuous international rivalry that the new era is certain to inaugurate. There can be no doubt, judging from

> the manner in which our competitors are now seeking to undermine this branch of underwriting, that marine insurance will be used, as probably never before, as a national commercial weapon for the acquisition and development of foreign markets. Failure to act now in strengthening our marine insurance facilities and placing them in an independent position free from foreign control, cannot be regarded otherwise than as the neglect of a duty and an opportunity. The loss of the present rich opportunity will soon be bitterly regretted, but it will be too late to undo the mischief.
>
> Marine insurance is more than a fundamental agency of commerce, and its importance extends beyond the ordinary service of protecting property and credit. Its use as a competitive weapon in international trade has been demonstrated to your committee in many ways. From this viewpoint, the advantages of possessing strong, independent underwriting facilities are undeniable.

The above sentences and others that could be quoted make it apparent that the congressional subcommittee believes that our present-day facilities for handling marine insurance are entirely inadequate, and that foreign control of two thirds of our marine insurance is a situation to be deplored.

The reasons for such far-reaching foreign control, mainly on the part of the British, are indicated. In a word, British companies are favored by such factors as a world market of long-time development; by a wide spread of business and of reinsurance facilities; by freedom on the part of companies either to combine or to form communities of interest; by freedom to write numerous forms of insurance; by a much lighter tax burden than is borne by American companies; by smaller overhead charges; and by the support of their own merchants and vessel owners.

The conclusions reached by the committee as to remedies for existing conditions in this country embrace several lines of action such as the formation of a comprehensive insurance bureau for the purpose of reinsurance; assistance on the part of the federal government; and state help through the removal of "unnecessary and paralyzing legislative restrictions."

The reinsurance bureau or exchange should be composed of American companies and be open to all willing to agree to conform to reasonable requirements. As a matter of fact, such a bureau is said to be in process of formation. The federal government could assist in remedying existing conditions, in the opinion of the committee, by going out of the marine insurance business itself, and by having all departments of the government which now place insurance with private interests divert such business to the proposed new bureau, especially if the rates offered by it are sufficiently attractive. It is also suggested that federal assistance can be given along other lines, notably by assuring marine un-

derwriters of the legality of forming associations and combinations designed to facilitate reinsurance, and by repealing the federal tax of one per cent on marine insurance premiums. It is urged that the state governments should pass remedial legislation notably with respect to taxation and the granting of permission to a single company to engage in several lines of insurance.

Avard L. Bishop.

Yale University.

PERIODICALS

The Review is indebted to Robert F. Foerster for abstracts of articles in Italian periodicals, and to R. S. Saby for abstracts of articles in Danish and Swedish periodicals.

Economic History (United States)

(Abstracts by Amelia C. Ford)

Bedford, J. R. *Tour in 1807 down the Cumberland, Ohio, and Mississippi Rivers from Nashville to New Orleans.* Tenn. Hist. Mag., July, 1919. Concluded from a previous number.

Bradlee, F. B. C. *Some account of steam navigation in New England.* Essex Inst. Hist. Coll., Apr., 1920. Pp. 32. In this number, an account of steamers running to Maine, New Brunswick, and Nova Scotia. A continued article.

Burns, L. *The national road in Indiana.* Indiana Hist. Soc. Pubs., vol. 7, no. 4, 1919. Pp. 28. Traces the history of this road, its location, construction, the traffic over it, inns, etc.

Condict, L. *Journal of a trip to Kentucky in 1795.* Proc. N. J. Hist. Soc., Single issue—Jan. to Oct., 1919.

Cunningham, C. H., editor. *A group of four financial reports relating to Louisiana, 1766-1788, in the section of documents.* Miss. Hist. Rev., Dec., 1919.

Densmore, B. *Journal of an expedition on the frontier.* Minn. Hist. Bull., Nov., 1919. Pp. 43. A surveyor's record of the extreme difficulty of travel in the Minnesota wilderness in 1857, and of the occasional settler and claim-jumper found there.

Fogle, L. *Journal of Ebenezer Chamberlain of a trip from Maine to Indiana, 1832.* Indiana Mag. of Hist., Sept., 1919. Pictures travelling facilities, social customs, and variety of settlers found on the journey.

Hepburn, A. B. *New York and the national banking system.* Quart. Journ. N. Y. Hist. Assoc., vol. 1, no. 2, Jan., 1920.

Ingalsbe, J. L. *Northwestern Iowa in 1855.* Iowa Journ. Hist. & Pol., Apr., 1920. Pp. 30. Includes an account of the prices and methods of surveying the public lands, the instruments used, and hardships encountered.

Ivey, P. W. *The Père Marquette Railroad Company.* Mich. Hist. Comm. vol., Univ. series, V. Pp. 59. A study largely from the financial side.

Johnson, I. A. *The Michigan fur trade.* Mich. Hist. Comm. vol., Univ. series, V. Pp. 203. Surveys the rise and growth of the fur trade within the boundaries of Michigan under the French, British, and American régimes, with a study of the respective policies, and describes the life of the traders, their relations to the red men and to each other.

Landis, C. I. *Captain William Trent, an Indian trader.* Papers read before The Lancaster County Historical Society, Dec. 5, 1919. Pp. 10.

Lewis, W. S. *Francis Heron, fur trader.* Wash. Hist. Quart., Jan., 1920. An account of Francis Heron, fur trader in the service of the Hudson's Bay Company in the Northwest from 1810, and a chief trader from 1828 to 1838, and of his son George Heron, born in 1834 and still living.

Luz, A. N. *Philippine economic development under American sovereignty.* Bankers Mag., Apr., 1920. Pp. 6. A presentation of statistics showing chiefly the commercial development of the Philippines, with some reference to industry and finance, during the last twenty years.

Marshall, T. M. *The miners' law of Colorado.* Am. Hist. Rev., Apr., 1920. Pp. 14. Gives the substance of the various codes of law enacted by the miners in 1859-1861; shows they dealt mostly with lode claims, mining rights, lawsuits, organization of government, crimes, etc.

Perring, T. C. *The New Albany and Salem railroad.* Indiana Mag. Hist., Dec., 1919. Pp. 21. Sketches reminiscently the origin and primitive characteristics of this local road during the fifties.

Records, S. *Pioneer experiences in Pennsylvania, Kentucky, Ohio, and Indiana, 1766-1836.* Indiana Mag. Hist., Sept., 1919. Pp. 31. Contains a few scattered references to primitive economic conditions on the frontier.

Shippee, L. B. *Steamboating on the upper Mississippi after the Civil War: a Mississippi magnate.* Miss. Valley Hist. Rev., Mar., 1920. Pp. 33. Ably describes the Jay Gould methods of business as carried on between 1865-1875 in transportation on the Mississippi, the attacks on the steamboat monopoly, relations between the railroads and river lines, and reasons for the decline of the latter.

Young, F. G. *Spain and England's quarrel over the Oregon country.* Oregon Hist. Soc. Quart., Mar., 1920. Pp. 8. Refers briefly to the fur trade on the Pacific coast before 1800, telling of the prodigious profits, the ships engaged in the business, and the evasions practised.

Economic History (Foreign)

Byrne, E. H. *Genoese trade with Syria in the twelfth century.* Am. Hist. Rev., Jan., 1920.

Dewavrin, M. *L'industrie minière et métallurgique au Canada.* Journ. Soc. Stat. de Paris, Apr., 1920.

Lepelletier, F. *Le mouvement économique et social.* Réf. Soc., Mar. 1, 1920.

Martin, P. F. *The finances of Mexico.* Finan. Rev. Rev., Mar., 1920.

Moret, J. *La question du change vue de Suisse.* Rev. d'Econ. Pol., Mar.-Apr., 1920.

Morgan, J. K. *Industrialism in Wales.* Edinburgh Rev., Jan., 1920.

Payen, E. *La Belgique: sa situation économique et financière.* L'Econ. Franç., Apr. 3, 1920.

Raffalovich, A. *Quelques aspects économiques et financiers de l'Allemagne.* L'Econ. Franç., Apr. 24, 1920.

Economic conditions of Europe. Bankers' Mag., Apr., 1920.

The effects of the European war upon the financial and economic condition of Japan. Econ. World., Apr. 10, 1920.

Agricultural Economics

(Abstracts by A. J. Dadisman)

Brooks, R. P. *The American Cotton Association.* S. Atlantic Quart.. Apr., 1920. Pp. 12. A statement of agricultural conditions in the south, with organization, plans, and problems of the American Cotton Association for improving conditions.

Crawford, R. P. *The farmer organizes.* Am. Rev. Rev., June, 1920. Pp. 3. A brief statement of the organization and activities of the American Farm Bureau Federation.

von Engeln, O. D *The world's food resources.* Geo. Rev., Mar., 1920. Pp. 21. A review of *The World's Resources*, by J. Russell Smith, discussing food supply in relation to population.

Ise, J. *What is rural economics?* Quart. Journ. Econ., Feb., 1920. Pp. 13. An argument in favor of separating rural economics and farm management in teaching and investigation.

Kano, H. *Farm tenantry in Nebraska compared with farm ownership.* Thesis, Univ. of Nebr., May, 1918. Pp. 42. A study of tenure in relation to use of land and crops, livestock, labor, capital, etc. The study is based on 158 farm records, with 58 tables and one figure.

Lloyd, O. G. *Studies of land values in Iowa.* Journ. Farm Econ., July, 1920. Pp. 5. A study of reasons for Iowa farm land selling at present prices. Data for the study from surveys, questionnaires, and business records. Six tables.

McBride, G. McC. *Cotton growing in South America.* Geo. Rev., Jan., 1920. Pp. 16. A discussion of the present status, possibilities, and problems of cotton production in South America.

Mudge, B. *Tilling Australia's 10,000,000-acre wheat field.* Trans-Pacific, May, 1920. Pp. 6. A description of the methods used in growing wheat in Australia; yields and marketing problems are discussed.

Nourse, E. G. *Will agricultural prices fall?* Journ. Pol. Econ., Mar., 1920. Pp. 30. A careful analysis of reasons for changes in prices of agricultural products.

Farm plans for using borrowed capital. Miss. Agr. Sta. Ext. Bull. 10 (1918), Nov., 1918. Pp. 27. Bulletin contains rules governing the making of farm plans using borrowed capital. Two prize plans are given with diagrams.

France: Coöperative agricultural credit at the end of the war. Intern. Rev. Agri. Econ., Feb., 1920. Pp. 6. An examination of the different types of agricultural credit and the application of special laws aimed at meeting the needs at the end of the war.

Norway: The labour-supply and wages in agriculture. Intern. Rev. Agri. Econ., Mar., 1920. Pp. 14. Number of agricultural workers, wages for men and women in summer and winter, from 1885 to 1915. Five tables.

Russia: The central unions for purchase and sale. Intern. Rev. Agri. Econ., Feb., 1920. Pp. 9. Organization and activities of several unions of coöperative organizations.

Railways and Transportation

(Abstracts by Julius H. Parmelee)

Acworth, W. M. *The American railway situation.* Econ. Journ. (London), June, 1920. Pp. 19.

————. *The English transport service in France.* Ry. Age, May 14, 1920. Pp. 2.

————. *The recent railway legislation in the United States.* Ry. Gaz. (London), May 7, 1920. Pp. 4. Summary of the Transportation act.

Allix, G. *La grève des chemins de fer.* Journ. des Trans., Feb. 28, Mar. 6, 20, 1920. Pp. 4, 4, 4. The first railway strike.

————. *Le projet de réorganisation des chemins de fer.* Journ. des Trans., May 8-29, June 12, 1920. Pp. 8, 3.

Les résultats de 1919. Journ. des Trans., Mar. 27, Apr. 3, Apr. 10-May 1, May 8-29, 1920. Pp. 4, 8, 5, 6. I. Réseau d'Orléans; II. Reseau de l'Etat; III. Réseau du Midi; IV. Réseau P.-L-M.

André, E. L. *Las tarifas ferroviarias, el régimen jurídico y la situación financiera de las Compañias.* Rev. Nacional de Econ. Tomo VII. Num. 22, 1920. Pp. 28.

Basford, G. M. *The locomotive as an investment.* Ry. Rev., June 12, 1920. Pp. 5. An analysis of motive power economies.

Beyer, O. S., Jr. *Federal control of railroads.* Soc. Rev., June, 1920. Pp. 9.

Burgess, K. F. *New limitations upon state regulation of railroad rates.* Columbia Law Rev., June, 1920. Pp. 20. With particular reference to the Transportation act, 1920.

Burtt, P. *Railways and statistics.* Modern Trans. (London), June 26, 1920. Pp. 3. Analysis of new system of railway statistics in England.

Clark, J. C. *A personnel department for the railways.* Ry. Age, June 18, 1920. Pp. 2.

Clark, J. M. *Railroad valuation as a working tool.* Journ. Pol. Econ., Apr., 1920. Pp. 42. Analysis of various purposes to be served by valuation of railway property.

Colson, L. *L'effort des chemins de fer belges.* Rev. d'Econ. Intern., June, 1920. Pp. 7. Railway reconstruction in Belgium.

County, A. J. *Where the railroads stood in the spring of 1920.* Ry. Rev., May 22, 1920. Pp. 5.

Cunningham, W. J. *The economics of the freight train load.* Proc. N. E. R. R. Club, Apr. 13, 1920. Pp. 17. Theoretical locomotive rating applied to actual conditions.

Delaisi, F. *The French railroad strike.* Soc. Rev., May, 1920. Pp. 5.

Dunn, S. O. *The future of the railroads.* Proc. Pacific R. R. Club, Mar., 1920. Pp. 10.

——— *The return of the railroads to corporate management and their problems.* Journ. Western Soc. of Eng., Apr. 20, 1920. Pp. 14.

Fowler, J. A. *Federal power to own and operate railroads in peace time.* Harvard Law Rev., Apr., 1920. Pp. 19.

Gleason, G. P. *Public terminals for water transportation.* Am. Rev. Rev., June, 1920 Pp. 4.

Gordon-Smith, G. *The railway system of Jugo-Slavia.* Ry. Rev., May 22, June 5, 1920. Pp 2, 3. With maps.

Harris, J. A. *Essential services in railway operations and control.* Ry. Gaz. (London), Mar 12, May 14, 1920. Pp. 3, 4.

Henderson, G. C. *Railway valuation and the courts.* Harvard Law Rev., May, June, 1920. Pp. 27, 27. Analysis of decisions from *Smyth* v. *Ames* down.

Henry, C. L. *The Transportation act of 1920.* Aera, Apr., 1920. Pp. 6. Its bearing on the electric railway situation.

Hines, W. D. *The critical period under the new railroad law.* Ry. Age, May 14, 1920. Pp. 4. Valedictory statement of retiring Director General of Railroads.

Jaques, F. *The recent strike on the French railways.* Ry. Age, May 7, 1920. Pp. 5.

McManamy, F. *The national agreement with shopmen.* Proc. Western Ry. Club, Mar. 15, 1920. Pp. 11.

Markham, C. H. *People, as well as railroads, are on trial.* Ry. Age, June 11, 1920. Pp. 4.

Mills, J. K. *Comparative records show rail wages far from inadequate.* Annalist, Apr. 19, 1920. Pp. 2. Comparative statistics, 1916-1920.

Mounce, R. S. *Increasing locomotive operating efficiency.* Ry. Age, Apr. 16, 1920. Pp. 6. Problems of design and loading.

Payen, E. *Les compagnies françaises de chemins de fer en 1919.* L'Econ. Franç., May 22, 29, 1920. Pp. 2, 3. I. Gross revenues. II. Expenses and deficits.

Rhea, F. *Railway valuation.* Ry. Rev., Apr. 10, 17, 24, May 1, 15, June 12, 1920. Pp. 5, 4, 4, 3, 5, 5. Final values, ultimate values, interpretations, cost of reproduction new, other values, costs, work of I. C. C.

Rich, E. J. *The Transportation act of 1920.* Am. Econ. Rev., Sept., 1920. Pp. 21.

SIMMERSBACH, B. *Von der östchinesichen Eisenbahn und ihrem Einflussgebiet.* Archiv f. Eisenbahnw., Mar.-Apr., 1920. Pp. 14.

SMITH, R. T. *The electrification of main line railways.* Bull. Int. Ry. Ass., Jan.-Feb.-Mar., 1920. Pp. 8.

SPROULE, W. *The relation of the railways to foreign trade.* Ry. Age, May 21, 1920. Pp. 3.

STROTHER, F. *A new day for the railroads.* World's Work, June, 1920. Pp. 8.

THORNTON, H. W. *Railway operating problems.* Modern Trans. (London), May 22, 1920. Pp. 4.

VANDERBLUE, H. B. *Valuation provisions of the Transportation act, 1920.* Am. Econ. Rev., June, 1920. Pp. 4.

WILLARD, D. *The present difficult transportation problem.* Ry. Age, July 9, 1920. Pp. 3. Situation described by a railway executive and need for co-operation emphasized.

YATSEN, S. *Port and railway schemes for South China.* Far East. Rev., Apr., June, 1920. Pp. 6, 7.

Die bayerischen Staatseisnbahnen in den Jahren 1915 und 1916. Archiv f. Eisenbahnw., Mar., Apr., 1920. Pp. 10.

British railways in 1919. Ry. Gaz. (London), Apr. 9, 1920. Pp. 6. Comparative statistics, 1913-1919.

The capitalization of British railways. Ry. Gaz. (London), June 25, 1920. Pp. 2.

The deficit on the railways. Modern Trans. (London), June 19, 1920. P. 1. British controlled railways earned £41,349,530 less than the government guarantee in the fiscal year ended March 31, 1920.

Der Eisenbahnbau in Australien in den letzten Jahren. Archiv f. Eisenbahnw., Mar.-Apr., 1920. Pp. 10.

The future of British railways. Ry. Gaz. (London), July 2, 1920. Pp. 2. White Paper of Ministry of Transport, proposing changes in railway grouping, management, etc.

Index to Transportation act of 1920. Shipper & Carrier, June, 1920. Pp. 2.

Modern armies and modern transport. Ry. Gaz. (London), June 4, 11, 1920. Pp. 2, 2.

Proposed grouping of Great Britain's railways. Ry. Age, May 7, 1920. Pp. 3. With map.

La réforme des tarifs de chemins de fer en France. Journ. des Trans., Nov. 29, Dec. 20, 1919; Feb. 7, Mar. 13, 1920. Pp. 3, 2, 2, 4. Series to be continued.

Die Staatseisenbahnen in Baden in den Jahren 1917 und 1918. Archiv f. Eisenbahnw., Mar.-Apr., 1920. Pp. 5.

Le transport des marchandises et la responsabilité des chemins de fer allemands pendant la guerre. Bull. Transp. Inter. par chemins de Fer, May, 1920. Pp. 12.

The transportation needs of the country. Ry. Rev., May 29, 1920. Pp. 7. Summary of rate hearings before Interstate Commerce Commission.

Die württembergischen Staatsbahnen in den Jahren 1916 und 1917. Archiv f. Eisenbahnw., Mar.-Apr., 1920. Pp. 9.

Commerce

(Abstracts by Harry R. Tosdal)

Bauer, G. F. *Trade restrictions now in effect in European commerce.* Americas, Mar., 1920. Urges prospective investors in internal European securities to consider taxation and currency problems.

Berglund, A. *The war and world's mercantile marine.* Am. Econ. Rev., June, 1920. Pp. 30.

Beveridge, W. *British exports and the barometer.* Econ. Journ., Mar., 1920. Presents a new hypothesis, based upon study of statistical correlation, that there is connection between barometric pressure and volume of exports.

Boyle, J. E. *Solving the problems in the new field.* Quart. Journ. Univ. N. Dak., Apr., 1920. Refers to problem of marketing agricultural products. Two developments are emphasized, coöperation among farmers and collective bargaining, as in milk distribution in larger cities.

Clapp, E. J. *A New York experiment in business coöperation.* Am. Econ. Rev., Mar., 1920. Pp. 12.

Kaufman, H. R. *Norway's trade centers.* World's Markets, May, 1920. Describes the excellent harbors and efficient shipping facilities as aid to Norway's foreign trade.

Litman, S. *The past decade of the foreign commerce of the United States.* Am. Econ. Rev., June, 1920. Pp. 20.

Mills, J. K. *How swollen dollars expand our export record.* Annalist, May 10, 1920. Shows that while increase in foreign trade in terms of money is very great, in volume of commodities, the increase is much smaller.

Payen, E. *Le caoutchouc: sa production, son marché et ses perspectives.* L'Econ. Franç., May 1, 1920. Deals with the quantities of production, the market and the prospects of rubber.

Payen, E. *Le pétrole: sa production, sa consommation.* L'Econ. Franç., Mar. 6, 1920. Brief statistical statement of petroleum production and consumption.

Soubs, E. W. *The Mexican-American trade conference.* World's Markets, Apr., May, 1920. Two articles giving the gist of papers and discussions at the United States-Mexico Trade Conference, held in Mexico City.

Yves-Guyot. *Le commerce de la Chine.* Journ. Soc. Stat. de Paris, Mar., 1920. Brief resumé of China's foreign commerce including statistical study of recent developments.

British Indian foreign trade, 1907-1919. Econ. World, Apr. 17, 1920. Statistical study showing British supremacy in India's foreign trade and indicating approaching changes.

Cutting the excessive handling costs that hamper foreign trade. Americas, Apr., 1920. Describes attempts to cut down trading and unloading costs by improved equipment.

Development of American port facilities. Comm. Mo., Apr., 1920. Urges greater efficiency at shipping terminals as aid to foreign commerce.

Foreign commerce of the Philippine Islands. Comm. Mo., Apr., 1920. Interesting analysis of Philippine trade.

Foreign trade trend is in the direction of the Orient. Americas, Apr., 1920. Adduces evidence to show that America's foreign trade interest is turning toward the Orient.

Plant expansion and export trade. Comm. Mo., Apr., 1920. Concludes that considering one industry as a whole, plant expansion during the war did not proceed at a more rapid rate than in peace times, but expansion was irregular.

La question du fer. L'Econ. Moderne, Mar. 12, 1920. Discussion of the Franco-German iron problem and the peace settlement.

Accounting

(Abstracts by Martin J. Shugrue)

Eppston, H. A. *Process costs.* Journ. Account., Apr., 1920. Pp. 8. An aeroplane motor company that had been compiling costs according to the special order or job system changed to the process system. Explains by concrete examples how the costs of the different operations are computed.

Fischer, A. K. *Accounting for a cast iron pipe foundry.* Journ. Account., Mar., 1920. Pp. 11. A general presentation of the accounting methods for a cast iron pipe foundry.

Gower, W. B. *Unsold goods and the income account.* Journ. Account., Mar., 1920. Pp. 9. Points out certain objections to the generally accepted basis of valuing inventories at cost or market price, whichever is the lower. Maintains that the valuation rule to be adopted for a given class of goods should depend upon the character of the business and the manner in which the unsold goods are acquired—whether by purchase or manufacture.

Hawkins, L. G. *Appraisals and their relation to accounts.* Journ. Account., Mar., 1920. Pp. 8.

Hofford, G. M. *Accounting for railroad construction.* Journ. Account., Mar., 1920. Pp. 7.

Hooker, J. C. *Auditing features of the mining industry.* Journ. Account., Apr., 1920. Pp. 9. Principal points considered are: nature of the business, special characteristics of accounting books used, mining assets, special features about mining liabilities, proprietorship accounts, balance

sheets, specal features of expense and income, cost accounts, and profit and loss statements.

Little, A. S. *Computation of coupon values.* Journ. Account., Apr., 1920. Pp. 16. By a series of mathematical examples shows how the values of bond coupons may be accurately computed.

McKay, C. W. *What is your plant worth?* VI. *Appraisals and annual depreciation.* Factory, May, 1920. Pp. $2\frac{1}{2}$. In calculating depreciation for federal income tax purposes the burden of proof rests on the plant or organization taxed. This and other uses of industrial appraisals are discussed.

Paton, W. A. *Some current valuation accounts.* Journ. Account., May, 1920. Pp. 16. Among questionable accounting procedures and usages are certain practices in the treatment of two kinds of discounts: (1) cash discounts, and (2) those discounts on promissory notes which are sometimes labeled "prepaid interest."

Rea, G. *Municipal accounts—their preparation and audit.* Journ. Account., Mar., 1920. Pp. 10. Particular attention is paid to the requirements of small municipalities. Some of the topics dealt with are: books of record, sources of income, subdivisions of expense account, bonded debt, and general procedure in conducting an audit.

Roberts, J. W. *Taxable income and profit and loss.* Journ. Account., May, 1920. Pp. 7. Shows how a concern may reduce the amount of labor required in restating its own profit and loss account for purposes of the income tax return.

Robotka, F. *How to make and analyze an annual report for country grain elevators.* Univ. Minn. Agr. Ext. Div. Spec. Bull. 42, 1919. Pp. 14. Suggests a form for an annual report and ways of analysis of the information contained. Recommends adoption of a uniform system of grain elevator accounting as set forth in the United States Department of Agriculture bulletin no. 811.

Saliers, E. A. *Cost, fair value, and depreciation reserves.* Am. Econ. Rev., June, 1920. Pp. 11.

———. *Valuation and depletion of oil lands.* Am. Econ. Rev., Mar., 1920. Pp. 2.

Shannon, T. J. *Accounts of a paper box factory.* Journ. Account., Mar., 1920. Pp. 8.

Public Utilities

(Abstracts by Charles S. Morgan)

Burdick, C. K. *Regulating franchise rates.* Yale Law Journ., Apr., 1920. Pp. 16. A careful analysis of legal problems involved in the regulation by states of franchise rates. Conclusion is reached that there is a tendency to recognize that under its police power and on the theory that the municipality is acting as an agent of the state in entering upon rate contracts, the state

may, with the consent of the utility, alter franchise rates or otherwise modify contracts between a municipality and a company. As a matter of administration the exercise of this power to change franchise rates is commonly in the hands of commissions.

Byers, M. L. *The prospective competitor method of valuation of property.* Proc. Am. Soc. Civil Engrs., Apr., 1920. Pp. 47. Statement of objections to cost of reproduction method of valuation and an outline of a suggested new basis of valuation.

Clark, H. C. *Fares continue upward trend.* Aera, June, 1920. Pp. 5. Further statistics on changes in electric railway fares with consideration of some of the legal problems therein involved. Five-cent fare remains in 66 out of 273 cities of over 25,000 population.

Clark, H. C. *Service-at-cost agreements.* IX. *The Dallas Railway Company.* X. *Memphis Street Railway Company.* Aera, Apr., May, 1920. Pp. 16, 5. Further instalments in a series of detailed uniform analyses of service-at-cost-agreements. The Memphis act was instituted by the Railroad and Public Utilities of Tennessee and is unique in this particular.

Clark, H. C. *Trolleys solve congestion problem.* Aera, Mar., 1920. Pp. 4. A well reasoned statement of the need for a proper determination of the respective fields of steam, water, electric, and motor transportation and a coördination of their services to the end that the maximum use may be made of existing transportation facilities.

Dana, E. *The public trusteeship of the Boston Elevated Railway.* Gen. Elec. Rev., Apr., 1920. Pp. 7. Brief historical sketch of conditions which preceded the appointment of the board of trustees with an analysis of the trusteeship act.

Edgerton, E. O. *Public utility financing.* Elec. World, May 8, 1920. Pp. 2. President of California Railroad Commission suggests the use by regulating commissions of capitalization rather than valuation as the basis of rate making, with a cash reserve to afford necessary elasticity and a sharing by the company and public of increased net earnings due to increased efficiency and economy of management.

Fitzgerald, T. *An incentive for good management.* Elec. Ry. Journ., May 15, 1920. Pp. 2. A proposal for securing efficiency in utility management through allowing companies an increased return proportioned and graduated to increase in number of passengers carried per year properly attributable to efforts of management. Tying such a reward up with capital cost per dollar of revenue per annum also suggested.

Goldmark, G. *The struggle for higher public utility rates because of war-time costs.* Cornell Law Quart., Mar., 1920. Pp. 20. Thorough analysis of legal questions involved with conclusion that under the theory of the police power of the state and the agency relationship between state and municipality the latter in most jurisdictions has found it largely impossible to control local utility rates.

Griswold, R. G. *Three-part charge for gas service.* Gas Age, May 10, 1920.

Pp. 4. Description of so-called Doherty three-part rate with discussion of advantages and illustrative examples.

Grunsky, C. E. *Public utility rates as affected by fluctuating unit prices.* Journ. Elec., Mar. 15, 1920. P. 1. Suggests use of a commodity unit as a correction factor in cost of reproduction estimates.

Hansen, O. *Some firsthand information on public utility operation by Seattle.* Engg. & Contracting, Apr. 21, 1920. Pp. 2. Mayor of Seattle discusses difficulties encountered in Seattle's experience with municipal ownership and declares for private ownership and operation.

Hartman, H. H. *Value of public utilities for taxation and rate making.* Bull. Nat. Tax Assoc., Mar., 1920. Pp. 2. Discussion of the extent to which valuations for rate purposes are useful for purposes of taxation.

Henry, C. L. *The transportation act of 1920.* Aera, Apr., 1920. Pp. 6. Argument that relatively few interurban electric railways are subject to the Transportation act of 1920.

Howson, L. R. *High cost and waterworks valuation.* Pub. Service, May, 1920. Pp. 2. Unit costs in determining reproduction costs should be based on prices somewhat between the low pre-war level of prices and the present high post-war level.

Hungerford, E. *Series of articles on salient phases of the electric railway situation.* I. *On the Toledo situation with some reference to conditions in New York City and Massachusetts.* II. *Kansas City.* III. *Boston.* IV. *Cleveland.* Elec. Ry. Journ., Apr. 24, May 1, 22, June 26, 1920. Pp. 7, 5, 6, 5.

Jackson, C. D. *The trend of public utility regulation.* Pub. Service, June, 1920. Pp. 3. Chairman of Wisconsin Railroad Commission expresses his belief in private as against municipal ownership of utilities, especially in view of present tendency toward the interconnection of generating plants in electric utility field. Changed economic conditions make it necessary for regulators to consider sympathetically the needs of the utilities.

Jackson, W. *The place of the bus.* III, IV, V. Elec. Ry Journ., Apr. 24, May 29, July 3, 1920. Pp. 4, 5, 5. III. Further consideration of principles involved in the determination of the proper relationship of bus to other forms of local transportation. IV. Detailed discussion of situation in New York City with some reference to situation in Chicago and St. Louis. V. Difficulties of and experiences in various localities with regulation of motor bus service.

Kealy, P. J. *Future of the electric railway.* Elec. Ry. Journ., Apr. 10, 1920. Pp. 3. Uncommonly frank discussion of the needs of the electric railway.

Nash, L. R. *Accounting for public utility replacements.* Stone & Webster Journ., June, 1920. Pp. 7. Argues for the use of smaller replacement reserves than those commonly required and suggests the use of a flexible system of replacement accruals in order to stabilize return to investor.

PARDEE, J. H. *Transport 11,000,000,000* passengers. Elec. Ry. Journ., May 1, 1920. Pp. 3. Aera, May, 1920. Pp. 7. Discussion of the local passenger and freight transportation problem with a consideration of the respective functions of the various types of agency affording local transportation service.

PIERCE, H. J. *Synopsis of new water-power law.* Elec. World, June 26, 1920. Pp. 6. Explanation and discussion of merits of recent federal water-power legislation with full citation of text of the law.

PLEHN, C. C. *Can a public utility shift its taxes to its patrons?* Bull. Nat. Tax Assoc., Mar., 1920. Pp. 4. Concludes, on the basis of a hypothetical case, that a part but only a small part of a tax on a public utility can be shifted to its customers.

RANSOM, W. L. *Essentials of a sound policy as to the public utility investor.* Am. Gas Assoc. Monthly, June, 1920. Pp. 10. Need for a more considerate and carefully developed regulatory process if utility investments are to regain and retain attractiveness.

SHAFFER, G. J. *The fate of the five-cent fare. XI. The situation in Pittsburgh.* Nat. Munic. Rev., June, 1920. Pp. 8. A discussion of the entangled situation in Pittsburgh.

THRALL, H. D. *Future trend of public utility financing.* Elec. Rev., July 3, 1920. Pp. 3. Discussion of difficulties of present utility financing with suggestion that stock issues, particularly those floated locally, be used to a larger extent.

Connecticut zone system revised. Elec. Ry. Journ., Apr. 17, 1920. Pp. 5. Connecticut commission introduces certain important changes in this far-reaching experiment in zone fares.

Correct public policy toward the street railway problem. A. Committee on Public Utilities, National Municipal League. Nat. Munic. Rev., Suppl., Apr., 1920. Pp. 17. A summary, with quotations from committee reports, of development from 1900 to 1920 of policy of National Municipal League with reference to utility regulation, extensions and rates, franchises and amortization of investment, public regulation of wages, hours, and conditions of labor, and the preparation for the thoroughgoing program of public ownership which is advocated. Problems for immediate future study and consideration of principles to be followed in the transition era from private to public ownership.

Development of national water power resources. Report of water-power development committee of National Electric Light Association. Elec. Rev., June 5, 19, 1920. Pp. 6, 5. Comprehensive treatment of waterpower situation with statistical and other data.

The equipment trust grows in favor. Elec. Ry. Journ., May 22, 1920. Pp. 12. Explanation of terms of recent equipment trust agreements in electric railway field with discussion of advantages and statistical table showing chronological development of this method of financing.

Natural gas legal decisions. Gas Age, May 25, 1920. Pp. 5. Abstracts of recent court and commission decisions affecting natural gas service.

Philadelphia commission reports. Elec. Ry. Journ., June 5, 1920. Pp. 4. Abstract of report of special commission which recommended that a thoroughgoing financial, corporate, and operating reorganization of the local transportation facilities be undertaken.

Railway census figures issued. Elec. Ry. Journ., May 8, 1920. Pp. 8. Presentation of the most essential of the statistics of the 1917 quinquennial census of electric railways.

Zone fares successful in Holyoke. Elec. Ry. Journ., Apr. 10, 1920. Pp. 6. Description of a simple type of zone fare system with illustrative material.

Labor and Labor Organizations

(Abstracts by David A. McCabe)

Adams, N. C. *British railway wages.* Mo. Lab. Rev., Mar., 1920. Pp. 9. An analysis of the government's proposals accepted by the railwaymen's delegate conference, January 15.

Adams, N. C. *Reabsorption of labor and unemployment in the United Kingdom.* Mo. Labor Rev., Apr., 1920. Pp. 10.

Atkins, W. E. *The industrial conference.* Journ. Pol. Econ., May, 1920. Pp. 9. Critical comment on the report, and the proposed machinery of adjustment.

Atkins, W. E. *The Kansas Court of Industrial Relations.* Journ. Pol. Econ., Apr., 1920. Pp. 14. An account of the circumstances leading to adoption of the law and an analysis of its scope and machinery and of the difficulties to be met in its operation. The judgment of the court in the case of the Topeka Edison Company and its employees is appended.

Bellini, L. *Il contratto di lavoro e la sua legge.* Riv. Intern., Jan.-Mar., 1920.

Bernstein, E. *The German establishment councils.* New Statesman, May 8, 1920. Pp. 3.

Cadoux, G. *A propos des grèves des enterprises de transport.* L'Econ. Franç., May, 1920. Pp. 2. The recent strikes of railway men and maritime workers were due to a revolutionary minority.

Chenery, W. L. *Arsenal employees' organization.* Survey, May 8, 1920. Pp. 3. Finds that the employees' representation plan at the Rock Island Arsenal has a record of solid development. Touches upon the difficulties experienced by the workers' representatives chosen to coöperate with Ordnance Department in securing orders for non-military work.

Chenery, W. L. *The vanguard of labor.* Survey, May 22, 1920. Pp. 3. The decisions of the recent national convention of the Amalgamated Clothing Workers.

Chubb, I. S. *Rehabilitation for industrial cripples: federal state plan adopted.* Am. Labor Legis. Rev., June, 1920. Pp. 2.

CLARK, L. D. *Legislation as to rehabilitation of injured workers.* Mo. Lab. Rev., Apr., 1920. Pp. 5.

COOKE, M. L. *Will labor make the next move?* New Republic, June 9, 1920. Pp. 3. Organized labor should adopt constructive policies for the increase of production. Evidences that labor is considering this advance are cited.

COOLIDGE, A. H. *Michaels Stern & Co.* vs. *the Amalgamated.* Nation, June 5, 1920. Pp. 3. The issues in the suit of a non-union firm in Rochester, N. Y., against the Amalgamated Clothing Workers of America.

CROWTHER, S. *Raising wages and lowering prices.* World's Work, July, 1920. Pp. 5. The joint agreement in the ladies' garment industry in Cleveland.

DE LEON, S. *Progress in one day rest in seven legislation.* Am. Lab. Legis. Rev., June, 1920. Pp. 2.

DOUGLAS, P. H. *The computation of labor turnover: a rejoinder.* Am. Econ., Rev., Mar., 1920. Pp. 3.

DUFFUS, W. M. *The Kansas Court of Industrial Relations.* Am. Econ. Rev., June, 1920. Pp. 5.

DUNCAN, C. S. *Report of the second industrial conference called by the president.* Am. Econ. Rev., June, 1920. Pp. 5.

FERNAND-JACQ. *Le programme syndicaliste et la révolution économique.* Journ. des Econ., Mar., 1920. Pp. 8. The creation of a national economic council by Conféderation Générale au Travail is a step toward the attempted control of all means of production in the interests of the proletariat alone.

FITCH, J. A. *The challenge of the industrial situation in America.* Am. Lab. Legis. Rev., Mar., 1920. Pp. 8. Deplores the outcry against strikes and coercion of strikers by government officials to the neglect of their legitimate grievances. Opposes anti-strike legislation.

FURUSETH, A. *American seamen's act upheld: a far-reaching decision.* Am. Labor Legis. Rev., June, 1920. Pp. 2. Favorable comment upon the decision of the United States Supreme Court in *Dillon* v. *Strathearn,* by the president of the International Seamen's Union of America.

GILL, R. S. *The four L's in lumber.* Survey, May, 1920. Pp. 6. Laudatory account of operations of Loyal Legion of Loggers and Lumbermen, by the editor of *The Four L Bulletin.* Contrasts the form and spirit of this organization with those of trade-unionism on the one hand and those of the I. W. W. on the other.

GLEASON, A. *Company-owned Americans.* Nation, June 12, 1920. Pp. 2. Conditions in non-union coal mining districts of West Virginia.

———. *The Whitleys to date.* Survey, June 5, 1920. Pp. 2.

———. *Workers by brain.* Survey, Apr. 17, 1920. Pp. 2. Unfavorable criticism of the methods of approach and grasp of the facts of the English university advocates of guild socialism.

GOLDSMITH. *Flexibility clauses in agreements in the printing industry.* Am. Econ. Rev., Mar., 1920. Pp. 2.

GRAZIANI, A. *Conflitti ed accordi fra imprenditori ed operai.* Supp. Econ. del Giorn. "Il Tempo," Mar. 5., 1920. Pp. 3.

GREENWOOD, A. *The nationalization movement in Great Britain.* Atlantic, Mar., 1920. Pp. 11. Organized labor has become strongly favorable to nationalization of certain services, with workers' participation in control. Author holds it is the only alternative to the existing chaos.

HUGGINS, W. L. *Why compulsory arbitration in Kansas?* Survey, May 29, 1920. Pp. 5. Answer, by the presiding judge of the Court of Industrial Relations, to unfavorable criticism of the law made by John A. Fitch; followed by rejoinder by Fitch entitled "The case against the law."

JORDAN, H. W. *Profit-sharing and copartnership.* Finan. Rev. Rev., June, 1920. Pp. 21 Outline of the arguments, pro and con, along well known lines, with brief description of plans followed by particular companies. Relatively little will be accomplished until a national scheme, on a voluntary basis, is worked out.

KASTL, N. B. *"Industrial democracy" in American factories.* Export, May, 1920. Pp. 5. Brief outline of several plans of employers' representation.

KLINE, B. *Employee representation in Standard Oil.* Indus. Manag., May, 1920. Pp. 5. Outline of the plan.

KLINE, B. *Employee representation on the job in Standard Oil.* Indus. Manag., June, 1920. Pp. 6. Description of two years of operation.

KNOEPPEL, C. E. *Laws of industrial organization.* VI. Indus. Manag., Mar., 1920. Pp. 8. Contains outline of a far-reaching plan of organization under which control and profits are divided equally between the workers and the furnishers of capital.

LEDERER, E. *Die Gewerkschaftsbewegung 1918-19 und die Entfaltung der wirtschaftlichen Ideologien in der Arbeiterklasse.* Archiv f. Socialwis., Apr., 1920. Pp. 51. Reviews the recent growth of German labor organizations, the political activities of the several groups, and the attitudes taken by them toward the workers' councils plan and the socialization of industry. Organized labor is divided and hesitant in the face of these issues.

LESCOHIER, D. D. *The unemployment program of the international labor conference and its applicability to the United States.* Am. Labor Legis. Rev., Mar., 1920. Pp. 9. Advocates the adoption by the United States of the proposals of the conference and presents a plan for a national employment service.

LIESSE, A. *Les tendances du sydicalisme ouvrier.* L'Econ. Franç., May, 1920. Pp. 3. Recent strikes and the grasping by the workers for the panacea of nationalization are due to mental restlessness caused by the war.

LITCHFIELD, P. W. *Employees who govern themselves.* System, Mar., 1920. Pp. 4. Account of the Goodyear industrial representation plan, by the factory manager.

LOVE, J. W. *The wreck on the B. R. T.* Survey, Apr. 24, 1920. Pp. 2. The unauthorized strike of the yardmen is a revolt against the acquiescence of

the officers in the repeated postponements of the settlement of the wage demands.

Luders, M. E. *Die Entwicklung der gewerblichen Frauenarbeit im Kriege.* Schmollers Jahrb., vol. 44, no. 1, 1920. Pp. 27. Treats of the mobilization of woman labor in Germany during the war, the kinds of labor performed by women, the working conditions, the scarcity of housing for women workers, and the problems of unemployment growing out of the cessation of the war.

Macpherson, F. H. *Building a payroll of capitalists.* System, May, 1920. Pp. 5. Description, by the president of the company, of a plan under which more than 55 per cent of the employees have purchased participating preferred stock.

Magnusson, L. *Comparison of foreign eight-hour laws.* Mo. Labor Rev., Mar., 1920. Pp. 18.

Magnusson, L. *Practice regarding the payment of punitive overtime rates.* Mo. Labor Rev., Mar., 1920. Pp. 9.

Marchetti, E. *Il contratto collettivo di lavoro e la legge francese 25 marzo 1919.* Riv. delle Soc. Commercial, Dec., 1919. Pp. 9.

Maylander, A. *Strikes of Italian government employees.* Mo. Labor Rev., May, 1920. Pp. 12.

Mittelman, E. B. *Chicago labor in politics 1877-96.* Journ. Pol., Econ., May, 1920. Describes the attempts to form a party distinct from either of the historic parties and gives the reasons for the failures.

Mortenson, C. E. *Minimum wage for women in hotels and restaurants in District of Columbia.* Mo. Lab. Rev., Mar., 1920. Pp. 5. The considerations which led the conference to its recommendations.

Pope, D. *Hours of labor of hotel and restaurant employees.* Mo. Lab. Rev., Mar., 1920. Pp. 18.

Price, W. H. *Women workers of industrial Japan.* Trans-Pacific, May, 1920. Pp. 6.

Sarkar, B. K. *Gilde di mestiere e gilde mercantili nell'India.* Giorn. d. Econ., Apr., 1920. Pp. 9.

Southard, E. E. *Trade unionism and temperament.* Indus. Manag., Apr., 1920. Pp. 6. Trade unionism and industrial unrest can be fully understood only through industrial psychiatry. The four main functional types of unionism described by Hoxie correspond with the four classical types of temperament.

———. *The modern specialists in unrest—place of the psychiatrist in industry.* Indus. Manag., June, 1920. Pp. 5.

Soule, G. *The railway men get action.* Nation, Apr. 24, 1920. Pp. 3.

Spaeth, R. A. *Prevention of fatigue in industry.* V. Indus. Manag., May, 1920. Pp. 8. Time study methods and standardization as practiced under "scientific management" do not carry sufficient safeguards for the workers,

SPENCE, K. M. *The law and the labor unions.* Indus. Manag., June, 1920. Pp. 6. A brief "exposition for laymen" of the law governing strikes.

ROCKWELL, S. G. *Wage incentive plan in shipbuilding.* Indus. Manag., Apr., 1920. Pp. 6. Gives examples of what has been accomplished in shipyards, without labor trouble. Holds that the workmen must take part in the setting of the standards.

WALKER, P. F. *Kansas Court of Industrial Relations.* Indus. Manag., Apr., 1920. Pp. 3. The fundamental idea of the law is sound but there are dangers in the concentration of authority and function involved in it. Other states will have to follow the lead of Kansas if industries such as coal mining are to be successfully dealt with by such procedure. The rank and file of labor in the state are not really opposed to the law; the employers have not yet assumed a definite attitude.

WOOTTON, B. *Classical principles and modern views of labour.* Econ. Journ., Mar., 1920. Pp. 15. Attempts have been made in England during and since the war to give wages in accordance with what it is believed the workers should receive, to the neglect of the value of labor as a commodity. Wages will eventually be readjusted to the commodity value of labor, through changes in the numbers employed, though nationalization may be adopted to prevent this.

YVES-GUYOT. *La conciliation et l'arbitrage.* Journ. des Econ., Apr., 1920. Pp. 21. Arbitration of terms of a new "contract" is wrong in principle and evasive in practice. French arbitration laws have encouraged strikes; the proposed law, forbidding strikes in certain occupations until after a decision has been rendered, would be useless, and the provision for governmental operation in case of strike might be used by labor to force nationalization. Absolute prohibition of strikes in these occupations is demanded.

————. *La grève des cheminôts.* Journ. des Econ., Mar., 1920. Pp. 27. The railway strike of February-March, 1920, was called and extended on the authority of a small number of individuals because one workman had been disciplined. Such strikes are due to continuous agitation for the general strike as a revolutionary measure and to the timidity of the government. Strikes on public utilities should be prohibited.

Analysis of labor provisions of the new transportation act. Mo. Lab. Rev., Apr., 1920. Pp. 8.

The basis of wages. New Statesman, Apr. 17, 1920. Pp. 2. Comment upon the award of the industrial court in the case of the engineering and shipyards trades. The court rejected the claim for an advance on the ground of increased cost of living but granted an increase on the ground of abnormally large demand for the products.

The building trades parliament of the United Kingdom. Lab. Gaz. (Canada), Mar., 1920. Pp. 5.

Coöperation and labour. New Statesman, May 29, 1920. Pp. 2. The danger of divergence between these two working-class movements on nationalization of production and distribution can easily be avoided if the coöperative

societies adopt a more enlightened policy toward their own employees, particularly in the direction of sharing control.

The docker's report. New Statesman, Apr. 10, 1920. Pp. 2. Analysis of report of the court of inquiry in the case of the demands of the dock workers and of the issues involved.

Employment in selected industries in March, 1920 Mo. Lab. Rev., May, 1920. Pp. 5.

German workers' councils established. Lab. Gaz. (Canada), Apr., 1920. Pp. 3.

German works' council law. Mo. Lab. Rev., May, 1920. Pp. 10.

Industrial conference declares for employee representation—summary of final report. Indus. Manag., May, 1920. Pp. 7.

The Kansas Court of Industrial Relations. Mo. Lab. Rev., May, 1920. Pp. 3. Arguments and decisions in the case of Topeka Edison Co. and its employees.

Laws and agreements governing working conditions among American seamen. Mo. Lab. Rev., May, 1920. Pp. 20. Answers made by the United States Department of Labor to questionnaire sent out by the International Labor Office.

New industrial plan for Cleveland's garment industry. Lab. Gaz. (Canada), May, 1920. Pp. 3. Account of the agreement between six local unions in the ladies' garment industry and the associated employers, under which a firm of industrial engineers was jointly employed. The report of the industrial engineers, outlining a wage basis and recommending a wage plan, is appended.

New system of wage adjustment for railways. Mo. Lab. Rev., May, 1920. Pp. 4.

Present scope and activities of the federal employment service. Mo. Lab. Rev., May, 1920. Pp. 14.

Report of commission on uniformity of labour laws. Lab. Gaz. (Canada), May, 1920. Pp. 10. Text of the report of a commission appointed at the request of the National Industrial Conference, September, 1919, to promote uniformity of labor laws in the several provinces of the Dominion of Canada.

Report of the Industrial Conference. Survey, Mar. 27, 1920, Sec. II. Pp. 16. The text of the report.

Report of the United States Bituminous Coal Commission. Mo. Lab. Rev., Apr., 1920. Pp. 11.

The rise in rates of wages since July, 1914. Lab. Gaz., Apr., 1920. Pp. 3.

Wages and hours of labor in brick, chemical, glass, leather, paper, pottery, and rubber industries in 1919. Mo. Lab. Rev., May, 1920. Pp. 16. Summary of data gathered in 1919 survey.

Wages and hours of labor in the cigar and men's clothing industries. Mo. Lab. Rev., Mar., 1920. Pp. 5. Summary of data gathered in the 1919 survey.

Wages and hours in the paper box, women's clothing, confectionery, and overalls industries. Mo. Lab. Rev., Apr., 1920. Pp. 6. Summary of data gathered in 1919 survey.

Wage movement of organized railway employees, 1919-20. Mo. Lab. Rev., May, 1920. Pp. 4.

Money, Prices, Credit, and Banking

(Abstracts by C. A. Phillips)

Andre, E. L. *Subsistencias y precios.* Rev. Nacional Econ., 1920. Pp. 42.

Arrus, O. F. *Problemas monetarios.* Rev. Econ. Argentina, Jan., 1920. Pp. 7.

Auhagen, O. *Ursachen und Wirtungen der Geldentwertung.* Schmollers Jahrb., vol. 44, no. 1. Pp. 20.

Bueno, R. T. I. *Los bancos hipotecarios en el Peru.* Rev. Econ. Argentina, Jan., 1920. Pp. 8.

Cahn, H. *Les perspectives du capitalisme.* Scientia, vol XXVII, no. XCVI-4. Pp. 10.

Cassel, G. *Further observations on the world's monetary problem.* Econ. Journ., Mar., 1920. Pp. 6. Would stabilize prices at current levels by regulating the monetary demand for gold.

Diomedes, A. N. *Greek exchange during 1919.* Bankers' Mag., May, 1920. Pp. 10. The depreciation of the Greek drachme seems to be unjustified and only temporary.

Edwards, W. *Zur Theorie der Preisbewegung.* Weltwirtsch. Archiv, Oct., 1919. Pp. 192.

Estcourt, R. *Would stabilized prices paralyze stimulus to trade?* Annalist, May 10, 1920. P. 1. Recommends that contracts be made in "Coms" to be translated into dollars according to a commodity price index number.

Gephart, W. F. *The gold supply of the world in relation to credit, banking and prices.* Econ. World., June 12, 1920. Pp. 5. The purchasing power of gold is more largely determined by the amount of currency that we can maintain at par with gold than it is by the supply of gold.

Glasson, W. H. *Price inflation: its beneficiaries and its victims.* S. Atlantic Quart., Apr., 1920. Pp. 8.

Graziani, A. *Sulla riduzione della circolazione cartacia.* Supp. Econ. del Giorn. "Il Tempo", Apr. 5, 1920. Pp. 2.

Hirschstein, H. *Der englische Wahrungsbericht.* Archiv f. Sozialwis., Apr., 1920. Pp. 19.

Kemmerer, E. W. *Rediscounts and the federal reserve discount rate.* Journ. Am. Bankers' Assoc., Apr., 1920. Pp. 3. The process of inflation described; its reversal should be cautious but firm.

Loriot, J. *Le régime monetaire du Marco et la crise du hassani.* Rev. d'Econ. Pol., Mar.-Apr., 1920. Pp. 24.

MAGEE, J. D. *Call rates and the Federal Reserve Board.* Am. Econ. Rev., Mar., 1920. Pp. 7.

MAWAS, A. *Le "Bullion Report" anglais de 1810.* Rev. d'Econ. Pol., Jan.-Feb., 1920. Pp. 18. Historical account of the period of restriction in the light of French experience.

MINTY, L. LEM. *The coinage our national memorial: A plea for the minting of a victory sovereign.* Scottish Bankers' Mag., Apr., 1920. Pp. 10.

OLIPHANT, H. *The theory of money in the law of commercial instruments.* Yale Law Journ., Apr., 1920. Pp. 19. The meaning of money in the law of bills and notes.

PAYEN, E. *L'argent en 1919.* L'Econ. Franç., Apr. 17, 1920. Pp. 3. A study of specie movements and specie prices.

————. *L'or en 1919.* L'Econ. Franç., Apr. 10, 1920. Pp. 3. Recent gold production and present distribution.

QUAIL, J. *Gold, currency, and inflation.* Finan. Rev. Rev., June, 1920. Pp. 13.

RODKEY, R. G. *Bank credit, inflation, and the price level.* The Chase, Apr., 1920. Pp. 8. The effect of bank credit expansion upon production, savings, prices.

SCHLESINGER, K. *The disintegration of the Austro-Hungarian currency.* Econ. Journ., Mar., 1920. Pp. 13.

SAKOLSKI, A. M. *Report of the British "American Dollar Securities Committee."* Am. Econ. Rev., June, 1920. Pp. 3.

SELIGMAN, SUBERCASEAUX, and KNIBBS. *El coeficiente de correccion de la moneda.* Rev. Econ. Argentina., Feb., 1920. Pp. 4.

SHORTES, F. R. A. *A new gold currency for Germany.* Bankers' Mag. (London), Apr., 1920. Pp. 7. A substantial reduction in the amount of paper money in circulation and the establishment of a separate gold exchange for international trading would be conducive to securing adequate financial reparation from Germany.

SURI, G. S. *The Imperial Bank of India.* Wealth of India, Mar., 1920. Pp. 7.

WILLS, D. C. *Credit problems and acceptances.* Journ. Am. Bankers Assoc., Apr., 1920. Pp. 3. Warning against the use of the trade acceptance as a revolving credit.

Les banques hypothécaires à capital français en Argentine. L'Econ. Moderne, May, 1920. Pp. 4.

The causes and remedies for inflation and high prices. Econ. World, Apr. 10, 1920. Pp. 4. Inflation of bank credits and currency the main factors responsible for the rise in the general price level. Advocates contraction of credits and economy.

The gold standard. Comm. Mo., May, 1920. Pp. 9. Gives an account of present monetary difficulties in leading countries and urges the re-establishment of the gold standard as the most practical solution.

Italy: the agricultural credit of the savings-bank of the Bank of Naples in 1918. Intern. Rev. Agri. Econ., Jan., 1920. Pp. 8.

Italy: land credit. Intern. Rev. Agri. Econ., May, 1920. Pp. 6. The work of land credit institutions in 1918.

Italy: the popular banks. Intern. Rev. Agri. Econ., May, 1920. Pp. 7. Number, membership, resources, business, federations.

The normal business cycle. Comm. Mo., June, 1920. Pp. 10. The nature, causes, and control of the business cycle.

Progress of banking in Great Britain and Ireland during 1919. Bankers' Mag. (London), June, 1920 Pp. 6. A general survey of the position of banks in the United Kingdom.

The restoration of the gold standard as the most practicable solution of the world's monetary difficulties. Econ. World, May 15, 1920. Pp. 4.

The Shanghai tael and the currency of Shanghai. Bankers' Mag. (London), May, 1920. Pp. 7. The Shanghai taels and their inter-relationships.

Public Finance

(Abstracts by Charles P. Huse)

ARMSON, J. G. *Some causes of growing tax rates.* Bull. Nat. Tax Assoc., May, 1920. Pp. 3. Emphasizes increases in cost of materials and labor.

ARTHUR, B. E. *Behind the scenes with five state budgets.* Nat. Munic. Rev., May, 1920. Pp. 10. Shows that organizations, as well as the budget law, is needed to make the law effective.

BALLANTINE, A. A. *Some constitutional aspects of the excess profits tax.* Yale Law Journ., Apr., 1920. Pp. 18. A review of decisions shows that the Supreme Court would be very unlikely to rule against this tax. Congress should be looked to for relief, not the court.

BEYER, W C. *Employment standardization in the public service.* Supp. Nat. Munic. Rev., June, 1920. Pp. 13. Reviews progress in last decade, describing problems encountered.

BORGATTA, G. *Lo studio scientifico dei fenomeni finanziarii.* Giorn. d. Econ., Mar., 1920. Pp. 36.

BUCK, A. E. *The first Virginia budget.* Nat. Munic. Rev., Apr., 1920. Pp. 3. Its presentation by the governor shows the great need of unified administrative organization.

BURNS, J. *Income and profits under the budget.* Finan. Rev. Rev., June, 1920. Pp. 15. Describes recent changes in British tax system.

———. *Investors and income tax.* Finan. Rev. Rev., Mar.. 1920. Pp. 42.

CHELPNER, B. S. *Quelques réformes financières: la réforme belge.* Rev. d'Econ. Pol., Mar.-Apr., 1920. Pp. 14. Belgium established in 1919 an income tax which imposes different rates on income from realty, personalty, and personal earnings and in addition a moderately progressive tax on the individual's total income.

Clark, C. E. *Eisner v. Macomber and some income tax problems.* Yale Law Journ., May, 1920. Pp. 10. Deals with problems arising out of the stock dividend decision.

Comstock, A. *British income tax reform.* Am. Econ. Rev., Sept., 1920. Pp. 19.

————. *Fiscal aspects of state income taxes.* Am. Econ. Rev., June, 1920. Pp. 13.

———— *The memoranda of the British inland revenue on a war levy.* Bull. Nat. Tax Assoc., May, 1920. Pp. 3.

———— *Proposals for the taxation of wealth in Great Britain.* Journ. Pol. Econ., May, 1920. Pp. 7. The plan has gained more and more serious consideration and approval.

Ellis, H. G. *The effect of a capital levy on trade and industry.* Quart. Rev., 1920.

Feugère, E. *Les nouvelles taxes municipales parisiennes.* L'Econ. Franç., June 12, 1920. Pp. 2. Paris has been forced to loans and new taxes to meet her deficit.

Frey, M. F. *Tax on non-residents under the New York state income tax law.* Trust Companies, May, 1920. Pp. 3. Explains the provisions of the amendment made necessary by the recent court decision.

Griziotti, B. *La soluzione dei problemi finanziarii dopo la guerra nella letteratura italiana.* Giorn. d. Econ., Feb., 1920. Pp. 16.

Hartman, H. H. *Value of public utilities for taxation and rate making.* Bull. Nat. Tax Assoc., Mar., 1920.

Jeze, G. *Le prélèvement sur le capital comme moyen de liquider les charges financières de la guerre.* Rev. Sci. Legis. Finan., Jan.-Mar., 1920. P. 1. The levy on capital has been adopted in Germany and Italy and is being seriously considered in France and England.

Keirstead, W. C. *Succession duties in New Brunswick and other Canadian provinces.* Bull. Nat. Tax Assoc., Mar., 1920.

Liesse, A. *Danger d'une taxe sur "l'enrichissement" en présence d'une consolidation necessaire de notre dette flottante.* L'Econ. Franç., Mar. 27, 1920. Pp. 3. Opposes the tax on increases in fortunes especially because of its effect on thrift.

Lisman, F. J. *Confiscating capital and incentive by taxation.* Bull. Nat. Tax. Assoc., Mar., 1920.

Lockhart, O. C. *Ohio tax report.* Am. Econ. Rev., Mar., 1920. Pp. 8.

Lutz, H. L. *The progress of state income tax since 1911.* Am. Econ. Rev., Mar., 1920. Pp. 26.

Marriott, J. A. R. *Parliament and finance.* Edinburgh Rev., Jan., 1920.

Marshall, T. L. *Taxability of proceeds of life insurance policies payable to corporations.* Econ. World, May 29, 1920. Pp. 3. Discusses the basis for

discriminating between individuals and corporations in the case of such payments.

MATHOREZ, M. J. *La fiscalité français depuis la guerre.* Réf. Soc., Apr., 1920. Pp. 26. Expresses confidence in France's economic and financial future.

MILLS, O. L. *Suggestions on federal budgetary bills.* Bull. Nat. Tax Assoc., Mar., 1920.

MOIR, H. *The taxation of life insurance companies.* Econ. World, Apr. 24, 1920. Pp. 3. Argues in favor of their exemption.

MONDET, N. *La situation financière et les credits provisoires.* Journ. des Econ., Apr., 1920. Pp. 10. Gives the survey made by the minister of finance.

NICHOLSON, J. S. *Adam Smith on public debts.* Econ. Journ., Mar., 1920. Pp. 12. His views are sound and well worth applying to the present situation.

OLDHAM, C. H. *The public finances of Ireland.* Econ. Journ., Mar., 1920. Pp. 16. War finance has shown that indirect taxes are better suited to Irish conditions than direct.

OUALID, W. *La réforme financière en Italie.* Rev. d'Econ. Pol., Jan.-Feb., 1920. Pp. 11. Italy plans by heavier taxes on consumption and income and by taxes on capital to avoid further borrowing.

PHILLIPS, J. B. *Results of the new tax law in Indiana.* Bull. Nat. Tax Assoc., Mar., 1920.

PLEHN, C. C. *An assessment roll for the income tax.* Bull. Nat. Tax Assoc., Apr., 1920. Pp. 8. Reprinted from the *Journal of Political Economy*, Dec., 1919.

———. *Can a public utility shift its taxes to its patrons?* Bull. Nat. Tax Assoc., Mar., 1920. Pp. 4. If the law permits, they may be shifted in part.

The recent investigation of the operation of the income tax in Great Britain. Econ. World, May 8, 1920. Pp. 2. Gives the important findings of the recent Royal Commission, and contrasts British and American practice.

POWELL, T. R. *The judicial debate on the taxability of stock dividends as income.* Bull. Nat. Tax Assoc., May, 1920. Pp. 10.

PRATO, G. *La coscrizione patrimoniale nei provvedimenti finanziari italiani.* Riv. delle Soc. Comm., Dec., 1919. Pp. 8.

RIST, C. *La réforme financière en Allemagne.* Rev. d'Econ. Pol., Jan.-Feb., 1920. Pp. 6. Germany plans to pay off part of her debt with a capital levy, and to meet current expenditures by heavy income and other taxes.

SAMUEL, H. *The plight of the taxpayer.* Contemp. Rev., Dec., 1919.

SEIDMAN, F. E. *Capital stock tax shortcomings; some proposed remedies.* Annalist, June 21, 1920. Pp. 2. Though small, the burden is not levied in many cases in proportion to ability.

SELIGMAN, E. R. A. *La liquidation financière de la guerre aux Etats-Unis.* Rev. Sci. Légis. Finan., Jan.-Feb.-Mar., 1920. Pp. 53. Shows why the United States should repay its debt, considers the probable expenditures and receipts, and makes suggestions for the improvement of the fiscal system.

SELIGSBURG, W. N. *Collection of state income tax from non-residents.* Bull. Nat. Tax Assoc., May, 1920. Pp. 3. Discusses recent decisions.

WALCOTT, E. H. *State taxes on banks.* Journ. Am. Bankers Assoc., Apr., 1920. Pp. 2. Reviews practices of various states and advocates exemption of bank reserves from taxation.

SMITH, M. A. *Scientific tariff revision.* Am. Econ. Rev., June, 1920. Pp. 9.

WILLOUGHBY, CUMIN, and BEARD. *The Good versus the McCormick budget bill—a debate and a poll of the bureaus of municipal research.* Nat. Munic. Rev., Apr., 1920. Pp. 15.

WRIGHT, I. *The financial aspects of the German indemnity.* Bankers Mag., Apr., 1920. Pp. 10. Considers the various ways in which it may be paid and economic consequences of such payments.

Consumption tax favored. Supp. Mo. Bull. N. Y. Chamber Comm., Mar., 1920. Pp. 7. Advocates the repeal of the excess profits tax and the sur taxes on income and the substitution of a consumption tax.

La conference financière internationale. Europe Nouvelle, June, 1920. Pp. 2. Text of report of M. Leon Bourgeois, calling for financial conference recently adopted by League of Nations.

Federal appropriations and a national budget. Supp. Mo. Bull. N. Y. Chamber Comm., Mar., 1920. Pp. 12. Believes that a scientific budget would bring great savings.

Levy on war wealth. Bankers Mag., June, 1920. Pp. 6. The report of the British select committee favors the plan only in case of urgent necessity.

La liquidation financière de la guerre en Angleterre. Rev. de Sci. Légis. Finan., Jan.-Mar., 1920. Pp. 40. Gives the plans of the finance minister.

La liquidation financière de la guerre en France. Rev. Sci. Légis. Finan., Jan.-Mar., 1920. Pp. 27. Compares the projects of M. Klotz with those of his successor, M. François-Marsal.

Local government debt in California. Cal. Taxpayers Journ., June, 1920. Pp. 4. Figures show alarming increase in last eight years.

Recommendations of the Secretary of the Treasury for the simplification of the federal and excess profits taxes. Econ. World, Mar. 27, 1920. Pp. 3.

Pauperism, Charities, and Relief Measures

(Abstracts by George B. Mangold)

KELSO, R. W. *Endorsement of charities by chambers of commerce.* Nat. Munic. Rev., Mar., 1920. Brief account of plans followed in standardizing social agencies; discusses those considered worthy of support from the rest.

Favors boards of public welfare to supervise social agencies, but implies that American cities are not yet ready for this step.

Moses, R. *Reconstruction of state welfare agencies.* Survey, Apr. 10, 1920. Arguments in favor of the proposal by the New York State Reconstruction Commission to reorganize the state institutions and public welfare work along simpler lines. Reasons are given for the classification of the fields of service, and the efficiency and economy of the new plan are urged.

Winter conference of Charity Organization and kindred societies Charity Organ. Rev., Mar., 1920. In England as well as in the United States it has been difficult to draw a line between the work of the Charity Organization and other social service agencies. The speakers attempted to define the fields of the Charity Organization societies and the National Conference of Social Service.

SEVENTEENTH LIST OF DOCTORAL DISSERTATIONS IN POLITICAL ECONOMY IN PROGRESS IN AMERICAN UNIVERSITIES AND COLLEGES

Students whose period of continuous non-residence exceeds three years are omitted from the list. The last date given is the probable date of completion.

The first list of this kind was dated January 1, 1904, and was sent to all members, but not regularly bound in the publications. The subsequent lists have appeared in the publications as follows:

Second list, 1905, in third series, vol. iv, p. 787.
Third list, 1906, in third series, vol. vii, no. 3, supplement, p. 48.
Fourth list, 1907, in third series, vol. viii, no. 2, supplement, p. 42.
Fifth list, 1908, in the *Bulletin* for April, 1908, p. 69.
Sixth list, 1909, in the *Bulletin* for April, 1909, p. 16.
Seventh list, 1910, in the *Bulletin* for March, 1910, p. 12.
Eighth list, 1911, in the REVIEW for March, 1911, p. 212.
Ninth list, 1912, in the REVIEW for June, 1912, p. 519.
Tenth list, 1913, in the REVIEW for June, 1913, p. 527.
Eleventh list, 1914, in the REVIEW for June, 1914, p. 524.
Twelfth list, 1915, in the REVIEW for June, 1915, p. 476.
Thirteenth list, 1916, in the REVIEW for June, 1916, p. 499.
Fourteenth list, 1917, in the REVIEW for June, 1917, p. 485.
Fifteenth list, 1918, in the REVIEW for June, 1918, p. 459.
Sixteenth list, 1919, in the REVIEW for June, 1919, p. 483.

Theory and Its History

JOSEPH CHARLES BARTLEY, A.B., Villanova, 1916; A.M., 1919. Governmental regulation and value theory. 1922. *Catholic University.*

WALTER BLAINE BODENHAFER, A.B., Indiana, 1911; LL.B., 1912; A.M., Kansas, 1915. Rôle of group concept in Ward and modern sociology. 1920. *Chicago.*

ZENAS CLARK DICKINSON, A.B., Nebraska, 1914. Economic motives: a study of the psychological theory of action, with reference to economic theory. 1920. *Harvard.*

HERBERT FEIS, A.B., Harvard, 1916. Economic theory and wage arbitration. *Harvard.*

FRIEDA FLIGELMAN, A.B., Wisconsin, 1910. The principle of participation; a critique of "Les fonctiones mentales dans les sociétés inférieures," the thesis advanced by L. Levy-Bruhl. 1920. *Columbia.*

MARTIN GUSTAVE GLAESAR, A.B., Wisconsin, 1912. The cost of service theory in rate regulation. *Harvard.*

JOSEPH BRADLEY HUBBARD, A.B., Wisconsin, 1912; A.M., 1913. History of economic thought during the Middle Ages. *Harvard.*

HAZEL KYRK, A.B., Chicago, 1910. The consuming process under the present industrial system. 1920. *Chicago.*

KWANG-YEE LIEU, A.B., Government University of Peking, 1917; Ph.M., Wisconsin, 1919. Some modern theories of value. 1921. *Columbia.*

LEVERETT SAMUEL LYON, Ph.B., Chicago, 1910; A.M., 1918. A functional approach to the social-economic process. 1920. *Chicago.*

FRANCIS LESTER PATTON, A.B., Ohio State, 1913; A.B., Oxford, 1916; A.M., 1919. Diminishing returns. 1920. *Columbia.*

SAMUEL HENRY PRINCE, A.B., Toronto, 1908; A.M., 1909. Catastrophe in social change. 1921. *Columbia.*

LELAND REX ROBINSON, A.B., Columbia, 1915. The social principle of municipal monopoly charges. 1920. *Columbia.*

D R SCOTT, A.B., Missouri, 1910; B.S., in Journalism, 1910. Accounting and market price, considered as joint and alternate instruments in the regulation of economic processes. *Harvard.*

HERBERT NEWHARD SHENTON, A.B., Dickinson, 1906; A.M., 1909; B.D., Drew, 1910. Collective decision. 1920. *Columbia.*

MARJORIE TAPPAN, A.B., Cornell. Time and the economic process. 1920. *Columbia.*

J. FRANKLIN THOMAS, A.B., Beloit, 1904. Theories concerning the influence of physical environment upon society. 1920. *Columbia.*

Economic History and Geography

ALEXANDER MATHEWS ARNETT, A.B., Mercer, 1908; A.M., Columbia, 1913. Populist movement with special reference to Georgia. 1920. *Columbia.*

R. G. BOOTH, A.B., Illinois Wesleyan, 1914; A.M., Columbia, 1915. Some social aspects of the development of the natural sciences in England in the eighteenth century. 1920. *Columbia.*

ELEANOR C. BUCKLEY, A.B., Texas, 1908; A.M., Pennsylvania, 1909. The economic forces underlying Latin-American independence. 1920. *Pennsylvania.*

EDNA CAMPBELL, A.B., Chicago, 1920; A.M., 1906. Geographic influence in settlement and development of the lower Mississippi Valley. 1921. *Chicago.*

GINEVRA CAPOCELLI, B. A., University of Naples, 1916; M.A., Columbia, 1918. Some of the effects of the war on Italy. 1921. *Columbia.*

ANNA C. CLAUDER, A.B., Bryn Mawr, 1905. The Napoleonic wars as reflected in the commerce to Philadelphia and New York from 1806 to 1812. 1920. *Pennsylvania.*

A. B. COX, A.B., Texas, 1911; A.M., 1914. Social and economic survey of the Milltown community. 1920. *Wisconsin.*

CLARENCE G. DITTMER, Ph.B., Hamlin, 1910. A socio-economic survey of living conditions in North China. 1921. *Wisconsin.*

MICHAEL DORIZAS, A.B., Robert, 1907; A.M., Pennsylvania, 1915. Economic geography of Greece. 1921. *Pennsylvania.*

WAYLAND FULLER DUNAWAY, B.A., M.A., Richmond; B.D., Th.M., Crozer; A.M., Chicago. History of the James River and Kanawha Company. 1921. *Columbia.*

H. C. ENGELBRECHT, Concordia Seminary, 1917; A.M., Chicago, 1918. Economic aspects of anti-clericalism in southwest Germany during the fourteenth and fifteenth centuries. 1920. *Chicago.*

FRANCES E. GILLESPIE, A.B., George Washington, 1906; A.M., Chicago, 1918. The history of English radicalism, 1840-1900. 1920. *Chicago.*

J. E. GILLESPIE, A.B., Cornell, 1909; A.M., Harvard, 1910. The influence of oversea expansion on England to 1700. 1920. *Columbia.*

HOWARD CHARLES GREEN, A.B., College of the City of New York, 1902. The radical movement of the American Revolution. 1920. *Columbia.*

H. E. GRIMSHAW, B.S., Columbia, 1914; A.M., 1915. Influence on England of India under the rule of the Company. 1920. *Columbia.*

UICHI IWASAKI, LL.B., Kwansi University, 1915; A.M., Columbia, 1918. Working forces of Japanese politics—a sociological survey. 1920. *Columbia.*

LELAND JENKS, A.B., Ottawa, 1913; A.M., Kansas, 1914. Social aspects of the Revolution of 1688-1689 in England. 1920. *Columbia.*

HOWARD C. KIDD, A B., Geneva, 1909; A M., Columbia, 1911. The development of laissez-faire to legislative control in the United States. 1920. *Columbia.*

BARNABAS SHIGEHARU KIMURA, A.B., Hobart, 1900; B.D., Episcopal Theological School (Cambridge), 1903; A.M, Harvard, 1903. The economic policy of the Tokugawa Shogunate. 1921. *Harvard*

ERNEST LAUB, A.B., Augustana, 1908; A.M., Wisconsin, 1914. The Danegeld in France. 1920. *Chicago.*

L. A. LAWSON, A.B., Upsala, 1909; A.M., Columbia, 1911. Social conditions in the principate of Augustus. 1920. *Columbia.*

LUCY LEWIS, A.B., Bryn Mawr, 1893; A.M., Pennsylvania, 1915. The continental systems and French industry. 1920. *Pennsylvania.*

ISABEL MCKENZIE, A.B., Barnard, 1912; A.M., Columbia, 1914. Social activities of English Friends in the period of industrial revolution. 1921. *Columbia.*

E. C. MACKLIN, A.B., Indiana, 1911; B.F., Union Theological Seminary, 1914. Social and philanthropic work of the Church of Scotland in the sixteenth century. 1920. *Columbia.*

MAY BAKER MARSH, A.B., Michigan, 1908; A.M., 1910. Folkways in art. 1921. *Columbia.*

THOMAS P. MARTIN, Leland Stanford, 1913; A.M., California, 1914. The confirmation of foreign land titles in the acquired territory of the United States. *Harvard.*

R. L. Meriweather, A.B., Wofford, 1912; A.M., Columbia, 1914. The southwest frontier, 1740-1776. 1920. *Chicago.*

Frederick Merk, A.B., Wisconsin, 1911. The economic history of Wisconsin during the Civil War decade. 1920. *Harvard.*

W. E. Meyer, A.B, Southwestern, 1910; A.M., Chicago, 1913. The social history of Kansas. 1921. *Chicago.*

Parker T. Moon, B.S., Columbia, 1913. Development of the political and social program of the *Action Libérale* in modern France. 1920. *Columbia.*

A. S. Neumann, A.B. Columbia, 1909; A.M., 1912. Jewish communal life in Spain during the thirteenth century. 1920. *Columbia.*

Andrew J. Newman, A.B., Washington, 1910; M.A., Missouri, 1911. Historical and statistical survey of the port of San Francisco. 1921. *California.*

Leland Olds, A.B, Amherst, 1912. Social unrest in England, 1811-1819. 1920. *Columbia.*

O. H. Pannkoke, A.B., Concordia, 1905. The interrelation of the reformation and the social movement in Saxony. 1920. *Columbia.*

George Herbert Roller, A.B., Ph.B., Northwestern College, 1910. The general economic theories underlying the decisions of the Supreme Court. 1920. *Columbia.*

H L. Scott, Ph B., Denison, 1911. The social influence of oversea expansion in France to 1785. 1920. *Columbia.*

Russell Gordon Smith, A.B., Richmond, 1911; A.M., Columbia, 1914. A sociological study of opinion in the United States. 1920. *Columbia.*

William C. Smith, A B., Grand Island, 1907; A.M., Chicago, 1912. A study of the Aonago tribe of India. 1920. *Chicago.*

Mary E. Townsend, A.B., Wellesley, 1905; A.M., Columbia, 1917. Origins of modern German colonialism, 1871-1885. 1920. *Columbia.*

Levi Edgar Young, S B., Utah, 1895. The social and economic development of Utah under the leadership of Brigham Young. 1920. *Columbia.*

W. E. Zeuch, A.B., Lenox, 1913; A.M., Clark University, 1916. Factors in the decline of the native races of the Western Hemisphere. 1920. *Cornell.*

Agriculture, Mining, Forestry, and Fisheries

O. E. Baker, B.S., Heidelberg, Ohio, 1903; M.S., 1904; A.M., Colorado, 1905. The utilization of agricultural land. 1920. *Wisconsin.*

Clyde Ray Chambers, A B., Missouri, 1916; A.M., Minnesota, 1917. Valuation of farm lands. 1923. *Minnesota.*

Edward Everett Dale, A.B., Oklahoma, 1911; A.M., Harvard, 1914. A history of the range cattle industry in Oklahoma. 1920. *Harvard.*

A. H. Hayes, B.S., Illinois, 1907; M.S., Wisconsin, 1915. Rural organization. 1920. *Wisconsin.*

Allen Dunning Jennings, A.B., St. Stephens, 1913. Milk supply of New York City. 1920. *Columbia.*

Joseph Bernard Kenkel, A.B., St. Joseph's College, 1913. Agricultural cooperation in the United States. *Catholic University.*

John H. Kolb, B.S., Northwestern, 1912; A.M., Chicago, 1913. Aspects of the rural life problem. 1921. *Wisconsin.*

Mabel T. Lee, A.B., Barnard, 1916; A. M., Columbia, 1917. Intensive agriculture in China. 1920. *Columbia.*

Preston E. McNall, B.S., Kansas Agricultural College, 1914; M.S., 1915. The relation of the prices of farm products to land values. 1921. *Wisconsin.*

John Ewing Orchard, A.B., Swarthmore, 1916. The economic and political significance of the mineral resources of the British Empire. 1921. *Harvard.*

Bernhard Ostrolenk, B.S., Boston University, 1911; A.M., Pennsylvania, 1919. Social aspects of land and rural labor. 1921. *Pennsylvania.*

Frederic Earnest Richter, A.B., Harvard, 1913. The copper industry. *Harvard.*

Kurt von Schenk, A.B., Harvard, 1913; M.S. Cornell, 1917. Agricultural evolution. 1920. *Cornell.*

David G. White, B.S., Nebraska, 1911; M.F., 1912. Valuation and utilization of timber lands with reference to its effect on a national forest policy. Wisconsin.

Holbrook Working, A.B., Denver, 1915; A.M., Cornell, 1919. A study of the influence of price changes on the production and consumption of wheat. 1920. *Wisconsin.*

Fred Roy Yoder, A.B., Senior College, 1910; A.M., North Carolina, 1915. The social aspects of farm tenancy. 1921. *Missouri.*

Giang Ching Young, A.B., Ohio Wesleyan, 1918; A.M., Columbia, 1919. Tea industry in China. 1921. *Columbia.*

Manufacturing Industries

John Hibson Cover, A.B., Columbia, 1916; A.M., 1919. The economics of journalism. 1921. *Columbia.*

Homer Hoyt, A.B., A.M., Kansas, 1913. The building industry in the United States during the war. 1921. *Chicago.*

Robert Herbert Loomis, A.B., Clark, 1911. The shoe industry in Massachusetts since 1875. *Harvard.*

Transportation and Communication

Elizabeth C. Brook, A.B., Kansas, 1912; A.M., 1913. The struggle for the Interstate Commerce Commission, 1876-1889. 1920. *Chicago.*

Robert Craig Effinger, A.B., Virginia, 1914. Railways and business cycles. 1920. *Columbia.*

Albert John Hettinger, Jr. A.B., Leland Stanford, 1916; A.M., 1917. Statistics of freight train operation. 1920. *Harvard.*

Harold Adams Innis, A.B., McMaster, 1916; A.M., 1918. History of the Canadian Pacific Railroad. 1920. *Chicago.*

E. A. Kincaid, A.B., Washington State, 1910; M.A., Harvard, 1911. Land grants to the Central Pacific. 1920. *California.*

Sidney L. Miller, A.B., Kansas State Normal College, 1912; A.M., Wisconsin, 1916. Federal railroad administration. 1920. *Wisconsin.*

W. R. Robinson, A.B., California, 1919. History of the Southern Pacific Railway of California. 1922. *California.*

L. C. Sorrell, A.B., Colgate, 1911. Private car lines. 1920. *Chicago.*

Tatsumosuke Ueda, M.S., Tokio, 1916. Capital and labor in the shipping industry. 1921. *Pennsylvania.*

Henry W. Van Pelt, A.B., Cornell, 1915; A.M., Columbia, 1917. Local freight discriminations. 1920. *Columbia.*

Trade, Commerce, and Commercial Crises

Joshua Bernhardt, A.B., Rochester, 1916. Government control of the sugar industry during the war. 1921. *Johns Hopkins.*

Norman Sydney Buck, B.A., Yale, 1913. Development of the organization in trade between England and the United States. 1921. *Yale.*

R. N. Burrows, A.B., Texas, 1912; A.M., Wisconsin, 1918. Coöperation in marketing cotton. 1921. *Wisconsin.*

Yu Meng Chen, A.B., University of Nanking, 1914; A.M., Butler College, Indianapolis, 1916. Commercial problems of the Far East. 1921. *Columbia.*

Joseph Henry Foth, A.B., A.M., Oklahoma, 1914. Trade associations. 1920. *Chicago.*

John Truman Horner, A.B., Oklahoma, 1909; B.S. and A.M., 1916. Principles of agricultural marketing. 1921. *Columbia.*

Chi Hsiu Hu, B.S., Pennsylvania, 1917; A.M., 1918. The marketing of farm products in China. 1921. *Columbia.*

Grace Lee Nute, A.B., Smith, 1917; A.M., Radcliffe, 1918. American foreign commerce, 1830-1860. 1921. *Radcliffe.*

Leona Margaret Powell, A.B., Ohio Wesleyan, 1905. The mail order house. 1920. *Chicago.*

Hugh Bruce Price, B.A., Wisconsin, 1914; M.A., Minnesota, 1916. The inspection and grading of grain. 1921. *Yale.*

William Charles Schluter, A.B., Iowa State, 1915; A.M., Columbia, 1916.

A study in business cycles: the industrial conditions of Germany, France, England, and the United States from 1907 to July, 1914. 1920. *Columbia.*

REXFORD GUY TUGWELL, B.S., Pennsylvania, 1915; A.M., 1916. Milk distribution as a public utility. 1920. *Pennsylvania.*

WILLIAM ERNEST WELD, A.B., Wooster, 1903; A.M., Princeton, 1908; B.D., Princeton Seminary, 1909. India's demand for transportation. 1920. *Columbia.*

DANIEL K. F. YAPP, A.B., Swarthmore, 1917; A.M., Pennsylvania, 1918. The foreign trade of Hong Kong. 1921. *Columbia.*

Accounting, Business Methods, Investments, and the Exchanges

JAMES CUMMINGS BONBRIGHT, A.B., Northwestern, 1913. Commission regulation of public utility securities. 1920. *Columbia.*

EDMUND WILLIAM BRADWIN, A.M., Queen's University, 1914. Contract system on railroad construction. 1920. *Columbia.*

WILLIAM D. GORDON, B.S., Pennsylvania, 1916. Scientific stores systems in manufacturing plants. 1921. *Pennsylvania.*

ALBERT C. HODGE, Ph.B., Chicago, 1914. The functional approach to accounting problems. 1920. *Chicago.*

ROBERT G. MERRICK, A.B., Johns Hopkins, 1917. Preferred stock as an instrument of corporation finance. 1922. *Johns Hopkins.*

NINA MILLER, A.B., Wisconsin, 1915; M S., Columbia, 1918. Analysis of financial reports. 1920. *Columbia.*

CHARLES STILLMAN MORGAN, B.A., Michigan, 1914. The promotion of efficiency in the management of public utilities. 1920. *Yale.*

FRANK PARKER, B.S., Pennsylvania, 1911; LL.B., 1915. Theories of depreciation applied to public utilities. 1921. *Pennsylvania.*

JOHN W. RIEGEL, B.S., Pennsylvania, 1918. Uniform accounting systems for basic industries. 1921. *Pennsylvania.*

JACOB HYMAN SCHMUCKLER, B.S., Columbia, 1914; A.M., 1916. Essays in corporation finance. 1920 *Columbia.*

Capital and Capitalistic Organization

BERT C. FULLER, A.B., Cornell, 1909; A.M., Harvard, 1910. Restraint of trade at common law and under the Sherman anti-trust law. 1920. *Columbia.*

L. A. FRYE, A.B., Minnesota, 1907; 1908. History of the state control of public service corporations in New York. 1920. *Columbia.*

LLOYD HELVETIUS LANGSTON, A.B., Maryville, 1913. Combinations in export trade. 1920. *Columbia.*

WALTER JEFFRIES MATHERLY, A.B., William Jewell, 1915; A.M., Washington, 1916. The surplus of public service corporations. 1921. *Chicago.*

George Abbott Merrill, A.B., Colgate, 1910; A.M., Columbia, 1914. The history of general incorporation legislation in New Jersey. 1921. *Columbia.*

William Harvey Reeves, A.B., Pennsylvania, 1916; A.M., 1919. Federal and state regulation of corporate business. 1921. *Columbia.*

Jonas W. Stehman, A.B., Lebanon Valley, 1909; A.M., Pennsylvania, 1910. History of the American Telephone and Telegraph Company. 1920. *Chicago.*

L. C. White, S.B., Dartmouth, 1914. Origin and development of regulating commission. 1920. *Chicago.*

Labor and Labor Organizations

Arthur Emil Albrecht, A.B., College of the City of New York; A.M., George Washington, 1917. The history and organization of the Seaman's Union of America. 1921. *Columbia.*

Horace Richard Barnes, A.B., Pennsylvania, 1911; M.A., 1913. The effect of the Pennsylvania child labor law on some Pennsylvania industries. 1921. *Pennsylvania.*

William Arthur Berridge, A.B., Harvard, 1914; A.M., 1919. Unemployment in the United States and Great Britain. *Harvard.*

Elizabeth Rhodes Butler, A.B., Vassar, 1918; A.M., Columbia, 1919. Labor struggle between journeymen and master under the guild system in England. 1921. *Columbia.*

Agnes Mary Hadden Byrnes, A.B., Northwestern, 1915; A.M., Columbia, 1916. Industrial home work in Pennsylvania. 1920. *Bryn Mawr.*

Warren B Catlin, A.B., Nebraska, 1903. The labor movement; its roots and branches. 1920. *Columbia.*

Elizabeth Leland Chamberlain, A.B., Mt. Holyoke, 1914. The International Cigar Makers' Union. 1920. *Chicago.*

Jean Davis, A.B., Bryn Mawr, 1914; A.M., Wisconsin, 1920. Collective bargaining in the men's ready-made clothing industry. 1920. *Wisconsin.*

Ethel Dietrich, A.B., Vassar, 1913; A.M., Wisconsin, 1914. Collective bargaining in the book and job printing industry. 1920. *Wisconsin.*

Paul Howard Douglas, A.B., Bowdoin, 1913. American apprenticeship and industrial education. 1920. *Columbia.*

Francis Julius Festner, A.B., Creighton University, 1912. The small shop in the printing industry. 1920. *Catholic University.*

Carroll E. French, A.B., Monmouth, 1916. The shop committee. 1922. *Johns Hopkins.*

Lucy Gwynne, A.B., Washington College, 1911; A.M., Johns Hopkins, 1914. The history of labor and politics in New York. 1921. *Columbia.*

Alfred P. Haake, A.B., Wisconsin, 1914; A.M., 1916. Wage measurement and the management of labor. 1920. *Wisconsin.*

GWENDOLYN HUGHES, A.B., Nebraska, 1916; A.M., 1917. Mothers in industry; a study in causation. 1920. *Bryn Mawr.*

ADA RUTH KUHN, A.B., Nebraska, 1915; A.M., 1918. Mothers in industry; a study of effect. 1921. *Bryn Mawr.*

FRED THOMAS LENA, A.B., Dartmouth, 1907; A.M., Columbia, 1915. Economic significance of the entrance of women into industry. 1920. *Columbia.*

E. D. LUCAS, A.M., Columbia; B.D., Union Theological Seminary. The economic life of a Punjab village. 1920. *Columbia.*

RICHARD STOCKTON MERIAM, A.B., Harvard, 1914. Organized labor in imperial Germany. 1921. *Harvard.*

EDWARD BECKER MITTLEMAN, A.B., Wisconsin, 1914. The history of labor in Chicago. 1920. *Chicago.*

A. W. NEWCOMBE, A.B., Bowdoin, 1914; D.B., Newton Theological Institute, 1917. The Catholic Church and the labor problem. 1920. *Chicago.*

HAZEL GRANT ORMSBEE, A.B., Cornell, 1915. The juvenile labor exchange in the United States and England, with a statistical analysis of records in the Philadelphia Bureau of Compulsory Education. 1922. *Bryn Mawr.*

GIKO SAKAMOTO, B.S., Tung Wen College (Shanghai); A.M., Southern California, 1913. Labor movement in Japan, 1868-1907. 1920. *Columbia.*

HAYNIE HATCHETT SEAY, JR., A.B., Richmond College, Va., 1913; A.M., Columbia, 1915. Labor legislation in Virginia. 1920. *Princeton.*

ARCHIBALD HERBERT STOCKDER, A.B., Colorado, 1915; A.M., 1916. Productivity of labor in the bituminous coal industry. 1921. *Columbia.*

EARL D. STRONG, A.B., Grinnell, 1909; A.M., Wisconsin, 1912. Joint organization in men's clothing industry. 1921. *Columbia.*

CHINPIN TSEN TSAI, A.B., Columbia, 1918; A.M., 1919. Pattern-makers' League. 1921. *Columbia.*

MRS. GLENN TURNER, A.B., Chicago, 1908; A.M., Wisconsin, 1913. More production: the problem as labor sees it. 1920. *Wisconsin.*

MARY VAN KLEECK, A.B., Smith, 1904. The fact basis for industrial reform. 1920. *Columbia.*

Money, Prices, Credit, and Banking

CHARLES E. ARTMAN, A.M., Columbia, 1918. Gold movements in relation to foreign credit during the Great War. 1921. *Columbia.*

LLOYD VERNOR BALLARD, A.B., Beloit, 1912; A.M., Harvard, 1913. Trade acceptances. 1921. *Chicago.*

THOMAS ANDREW BEAL, A.B., Utah, 1906; A.M., Columbia, 1910. The importance of trade and bankers' acceptances in business. 1921. *Columbia.*

J. RAY CABLE, A.B., B.S., Missouri, 1913; A.M., Chicago, 1917. The Bank of Missouri. 1921. *Columbia.*

JOHN MARTIN CHAPMAN, A.B., Indiana, 1917; A.M., Columbia, 1920. Exercise of the fiscal functions of Federal Reserve Banks. 1921. *Columbia.*

GERALD JOSEPH FOLEY, A.B., Dalhousie, 1919. The low rate of foreign exchange: causes and remedies. 1920. *Catholic University.*

FRANK DUNSTONE GRAHAM, A.B., Dalhousie, 1913; LL.B., 1915. International trade of the United States in the greenback period. 1920. *Harvard.*

HARRY FRANCIS GRADY, A.B., St. Mary's University, Baltimore, 1907. The development of commercial paper under the federal reserve system. 1921. *Columbia.*

LEONARD B. KRUEGER, Ph.B., Wisconsin, 1914; A.M., Pennsylvania, 1915. The history of banking in Wisconsin, 1863-1903. 1920. *Wisconsin.*

LLOYD W. MAXWELL, A.B., Oklahoma, 1912; A.M., Columbia, 1916. Government regulation of prices. 1920. *Columbia.*

MORRIS A. MECHANIC, A.B., Johns Hopkins, 1918. Building and loan associations in the United States. 1921. *Johns Hopkins.*

ROBERT ELWOOD MOORE, A.B., Wesleyan, 1915; A.M., 1916. An investigation of the relation of iron prices to business conditions. 1920. *Columbia.*

THOMAS HENRY SANDERS, Bachelor of Commerce, Birmingham (England), 1905; Master of Commerce, 1914. Banking in Japan. *Harvard.*

HENRY SCHENCK, A.B., Harvard, 1903; A.M., Columbia, 1919. Dollar exchange. 1921. *Columbia.*

GEORGE ODATEY, B.S., New York University, 1917; A.M., Columbia, 1918. Methods of improving banking and financial relations between the United States and Japan. 1920. *Columbia.*

ELIZABETH RACHEL WYLIE, A.M., Columbia, 1910. The guaranty of bank deposits. 1920. *Columbia.*

Public Finance, Taxation, and Tariff

FRANK FERRIS ANDERSON, A.B., Minnesota, 1908. The industrial claims of the single-taxers. 1920. *Columbia.*

ARTHUR EUGENE BUCK, Ph.B., Milligan, 1910; B.S., Tennessee, 1913; A.M., Columbia, 1917. New York budget law. 1920. *Columbia.*

DUDLEY DEWITT CARROLL, A.B., Guilford, 1907; A.M., Haverford, 1908. The history of taxation in North Carolina. 1920. *Columbia.*

JOHN HSING CHENG, B.S., St. John's (Shanghai), 1917; A.M., Ohio State, 1918. Government finance in China, under the Republic, with suggested reforms. 1921. *Columbia.*

CHUNGTAO TAHMY CHU, A.B., Harvard, 1917. The taxation of salt. *Harvard.*

ALZADA COMSTOCK, A.B., Mt. Holyoke, 1910; A.M., Columbia, 1913. State income taxes. 1920. *Columbia.*

KOCHENG C. CHUNG, A.B., Reed, 1916. Napoleonic War finance in England. 1920. *Columbia.*

Rebekah Poyntz Davis, B.S., Pennsylvania, 1915. The Philadelphia budget. 1921. *Pennsylvania.*

LeGrand Rex Drown, A.B., Wooster, 1915; A.M., Columbia, 1916. The validity of the pay-as-you-go policy in public school outlays. 1920. *Columbia.*

Felix Fluegel, A.B., Leland Stanford, 1914; M.A., 1915. Types of income tax laws. 1920. *California.*

Alexander Gourvitch, University of Paris, 1913. French public debt. 1920. *Columbia.*

Richard A. Graves, A.B., Minnesota, 1909; A.M., 1912. A comparative study of common school finance in a group of selected states. (New York and other states to be selected later.) 1923. *Minnesota.*

Luther H. Gulick, A.B., Oberlin, 1914; A.M., 1915. The evolution of the budget in Massachusetts. 1920. *Columbia.*

Clarence Heer, A.B., Rochester, 1914. Taxable income. 1921. *Columbia.*

Lloyd Fred Herbett, B.L., Ohio Wesleyan, 1913. Standardization of governmental functions. 1920. *Columbia.*

Duncan Clark Hyde, A.B., McGill, 1917; A.M., Harvard, 1918. Canadian war finance. *Harvard.*

Jens Peter Jensen, A.B., Dakota Wesleyan, 1913; A.M., Minnesota, 1917. Twenty years of federal finance, 1897-1916. 1920. *Chicago.*

Homin Leopold Lin, A.M., Teachers College, 1917. Administration of the real estate tax in New York City. 1920. *Columbia.*

Wallace Mitchell McClure, A.B., LL.B., Tennessee, 1911. Public finance in Tennessee. 1920. *Columbia.*

John Gordon McKay, A.B., Wisconsin, 1913. Income and inheritance taxation in the state of Wisconsin. 1921. *Wisconsin.*

A. R. Mead, A.B., Miami; A.M., Columbia, 1910. The development of the free school and the abolition of rate bills in the states of Connecticut and Michigan. 1920. *Columbia.*

Anna Margaret Michiner, A.B., Swarthmore, 1916. A study of the budget system in the German Empire. 1920. *Columbia.*

Theodore W. Overlach, Schleiz, 1907. Foreign financial control in China. 1920. *California.*

N. M. Pal, B.S., California, 1916; M.S., 1918. Systems of land tenure and taxation in India. 1920. *California.*

Lloyd Preston Rice, A.B., Wesleyan, 1913; A.M., Harvard, 1914. History of taxation in Connecticut. 1920. *Harvard.*

Pierson Muir Tuttle, Ph.B., Yale, 1914; A.M., Harvard, 1917. A history of railroad taxation in New Jersey. 1920. *Harvard.*

Kossuth Mayer Williamson, A.B., Alabama, 1913; A.M., Harvard, 1914. The taxation of distilled spirits in the United States since 1862. 1920. *Harvard.*

Population and Migration

J. C. Bell, Jr., A.B., Princeton, 1912. Migrations to the Northwest, 1830-1850. 1920. *Columbia.*

Louis Bloch, A.B., Wisconsin, 1916; A.M., 1917. Restriction of immigration. 1921. *Columbia.*

Jerome Davis, A.M., Columbia, 1919. Russians in the United States. 1921. *Columbia.*

Stanley Powell Davies, A.B., Bucknell, 1912. Racial assimiliation in a community in the anthracite coal region. 1920. *Columbia.*

Julius Drachsler, B.S., College of the City of New York, 1912; M.A., Columbia, 1915. Ethnogamy in New York City: a study of amalgamation of foreign nationalities. 1920. *Columbia.*

Hannibal Gerald Duncan, A.B., Wake Forest, 1913; A.M., Pennsylvania, 1915. The changing race relationship in the border and northern states. 1920. *Pennsylvania.*

Joseph M. Gillman, A.B., Western Reserve, 1913, A.M., Columbia, 1915. The immigration problem in Cleveland. 1920. *Columbia.*

Marcus Lee Hansen, A.B., Iowa, 1916; A.M., 1917. The volume and distribution of immigration, 1830-1860. 1921. *Harvard.*

Jacub Horak, Ph.B., Chicago, 1916. A study of the Czecho-Slovak community organization in Chicago. 1920. *Chicago.*

James R. Mutchmore, A.B., Toronto, 1913; A.M., Columbia, 1915. Canadian immigration. 1920. *Columbia.*

Clemens Niemi, A.B., Minnesota, 1915; A.M., Chicago, 1919. The Finnish element in the American population. 1921. *Chicago.*

B. M. Stewart, A.M., Queen's University, 1911. Immigration settlement in Canada before Confederation. 1920. *Columbia.*

Social Problems and Reforms

H. H. Beneke, A.B., Miami, 1909; A.M., Chicago, 1912. The concept of graft. 1920. *Chicago.*

Alice Squires Cheney, A.B., Vassar, 1909. Social work and social reform. 1921. *Pennsylvania.*

Archibald B. Clark, A.B., Reed, 1916. The popular vote as an index of social solidarity. 1920. *Columbia.*

Frieda Opal Daniel, A.B., Drake, 1916. A social study of an industrial area. 1921. *Chicago.*

Harmon O. DeGraff, B.A., Iowa, 1916; M.A., 1918. Juvenile delinquency in Iowa. 1921. *State University of Iowa.*

Earl Stanfield Fullbrook, M.A., B.A., Morningside, 1914; M.A., Iowa, 1918. Iowa's part in the work of the American Red Cross. 1920. *State University of Iowa.*

Elmer Diedrich Graper, A.B., Northwestern, 1911. Problems of police administration. 1920. *Columbia.*

John R. Hart, B.A., M.A., Pennsylvania, 1911. Economic waste in the distribution of Protestant churches. 1921. *Pennsylvania.*

George E. Hartmann, A.B., Cincinnati, 1917. Race prejudice as a factor in the determination of racial consciousness in the negro. 1920. *Chicago.*

Horace B. Hawthorne, B.S., Iowa State College, 1915; M.S., 1915. The comparative psychic efficiency of rural social groups. 1921. *Wisconsin.*

Cary Walker Hayes, A.B., Washburn, 1909; A.M., Columbia, 1912. Public morals and recreation; a municipal program. 1920. *Columbia.*

Glenn R. Johnson, A.B., Reed, 1915. The American newspaper as an indicator of social forces. 1920. *Columbia.*

Percy Gamble Kammerer, A.B., Harvard, 1908. The unmarried mother. 1920. *Harvard.*

Daniel Harrison Kulp, A.B., A.M., Brown, 1913. The Chinese family. 1921. *Chicago.*

C. S. Laidman, A.B., Manitoba, 1905. A study of the institutional church in Chicago. 1920. *Chicago.*

Robert Devore Leigh, A.B., Bowdoin, 1914. Columbia, 1915. Federal public health administration. 1920. *Columbia.*

Roderick D. MacKenzie, A.B., Manitoba, 1912. The social study of the neighborhood. 1920. *Chicago.*

Bruce Lee Melvin, A.B., Missouri, 1916; A.M., 1917. The social structure and function of the American village in its relation to the open country. 1921. *Missouri.*

Else Milner Michod, Ph.B., Chicago, 1909; A.M., 1915. The woman offender. 1920. *Chicago.*

Sadie Tanner Mossell, B.S., Pennsylvania, 1918. A.M., 1919. Living standards of one hundred southern negro families migrated to Philadelphia. 1921. *Pennsylvania.*

Clarence E. Rainwater, A.B., Drake, 1907; A.M., 1908. The neighborhood center. 1920. *Chicago.*

George S. H. Rossouw, A.B., Cape of Good Hope, 1915; A.M., Chicago, 1919. Nationalism and folk-language. 1921. *Chicago.*

Daniel Joseph Ryan, A.B., Catholic University, 1919. Vocational reëducation. 1920. *Catholic University.*

Joseph Lyons Snider, A.B., Amherst, 1915; A.M., Harvard, 1918. Feeblemindedness in Massachusetts. *Harvard.*

Sing Ging Su, A.B., Ohio Wesleyan, 1917; M.A., Columbia, 1918. The Chinese family system. 1920. *Columbia.*

F. M. Thrasher, A.B., DePauw, 1915; M.A., Chicago, 1918. Boy Scout movement as a socializing agency. 1920. *Chicago.*

Sumie Uesugi, A.M., Chicago, 1916. The family in Japan. 1920. *Chicago.*

Amey Eaton Watson (Mrs. Frank D.), A.B., Women's College in Brown University, 1907; A.M., Pennsylvania, 1910. Social treatment of illegitimate mothers. 1921. *Bryn Mawr.*

Arthur Evans Wood, A.B., Harvard, 1906; B.D., 1911. Social survey of a college community. 1921. *Pennsylvania.*

Comer McD. Woodward, A.B., Emory, 1900; A.M., Chicago, 1916. A case study of successful rural churches. 1920. *Chicago.*

Thomas Jackson Woofter, Jr., A.B., University of Georgia, 1912. Negro farm life in Georgia. 1920. *Columbia.*

A. C. Zumbrunnen, A.B., Central, 1907; A.M., Missouri, 1909. The community church as a type of denominational union. 1920. *Chicago.*

Insurance and Pensions

William Aquinas Dower, A.B., St. Mary's, 1914; A.M., 1915. Insurance in Connecticut: a study of the more important developments of the last half century. 1920. *Catholic University.*

W. M. Duffus, A.B., Leland Stanford, 1910. Health insurance in Illinois as provided by insurance companies and fraternal orders. *Wisconsin.*

Charles Gauger, A.B., Pennsylvania College, 1908. Economic aspects of accident and health insurance. 1921. *Pennsylvania.*

Dwight Gladstone Johnson, A.B., Coe College, 1918. Standards of comparison in life insurance. 1921. *Pennsylvania.*

Porter R. Lee, A.B., Cornell, 1903. Public outdoor relief in the United States. 1920. *Columbia.*

James Ambrose Losty, Soldiers' and sailors' insurance. 1920. *Catholic University.*

Edward Laurence McKenna, A.B., Columbia, 1913; A.M., Illinois, 1914. Title insurance in the United States. 1921. *Pennsylvania.*

Paul Studensky, Gymnasium, Petrograd, 1896-1905; University of Petrograd, 1905-1908; Sorbonne, 1908-1909; New York University, 1915-1917; Columbia, 1917. Teachers' retirement systems in the United States. 1920. *Columbia.*

Pauperism, Charities, and Relief Measures

Barbara N. Grimes, A.B., California, 1913; J.D., 1915. The relation of sickness to poverty in California. 1921. *California.*

Helen Rankin Jeter, A.B., California, 1917. The public care of children in Illinois. 1921. *Chicago.*

Samuel Caleb Ratcliffe, A.B., Mt. Allison, 1909; B.D., A.M., Alberta, 1918. The history of the poor law in Illinois. 1920. *Chicago.*

Socialism and Co-operative Enterprises

NILES CARPENTER, JR., A.B., Northwestern, 1914; A.M., 1915. Guild socialism and the procurement of capital. 1920. *Harvard.*

OTTO F. CARPENTER, A.B., Ohio Northern, 1912; A.M., Wisconsin, 1917. Government in industry. 1920. *Wisconsin.*

JOYCE ORAMEL HERTZLER, A.B., Baldwin-Wallace, 1916; A.M., Wisconsin, 1919. Social utopias and utopianism. 1920. *Wisconsin.*

HAROLD H. MAYNARD, B.A., Iowa State Teachers' College, 1912; M.A., 1915; M.A., Harvard, 1919. Phases of coöperative fruit growing in the Pacific Northwest. 1921. *University of Iowa.*

HELEN RUSSELL WRIGHT, A.B., Smith, 1912. Coöperative distribution in the Middle West. 1921. *Chicago.*

Statistics and Its Methods

GEORGIA BAXTER, A.B., Denver, 1914; A.M., California, 1917. A statistical study of non-support and desertion, based on a study of cases in Philadelphia. 1921. *Bryn Mawr.*

FRANK ALEXANDER ROSS, Ph.B., Yale, 1908; A.M., Columbia, 1913. A study of the application of statistical methods to sociological problems. 1920. *Columbia.*

DONNA FAY THOMPSON, A.B., Indiana, 1913; A.M., 1914. The birth rate in college graduates' families. 1920. *Columbia.*

NOTES

New Address of the American Economic Association. Professor Ray B. Westerfield, of Yale University, has been elected Secretary-Treasurer of the American Economic Association. All communications relating to memberships, subscriptions, orders for publications, or other business matters should be addressed: *American Economic Association, Yale Station, New Haven, Conn.* Communications to the Managing Editor of the American Economic Review, including manuscripts submitted for publication and correspondence with reference to exchange of publications should be addressed, as before, to *Professor Davis R. Dewey, 222 Charles River Road, Cambridge 39, Mass.*

Since February 1, 1920, the following names have been added to the membership of the American Economic Association:

Albrecht, Joseph A., 925 Fidelity Bldg., Buffalo, N. Y.
Allred, C. E., University of Tennessee, Knoxville, Tenn.
Anderson, Hilding E., 1352 Raymond Ave., St. Paul, Minn.
Arrus, Oscar F., Constitucion 20, Callao, Peru, S. A.
Auld, George P., U. S. Naval Headquarters, New York City.
Ault, Otho C., George Peabody College, Nashville, Tenn.
Balch, Gordon H., Stone and Webster, 120 Broadway, New York City.
Baldwin, H. C., Babson's Statistical Organization, Wellesley Hills, Mass.
Barnard, Bascom Weaver, 1012 Gloria Ave., Durham, N. C.
Bates, T. Towar, Goodbody & Co., 115 Broadway, New York City.
Belknap, William B., University of Louisville, Louisville, Ky.
Bemis, Miss Alice L., 10 S. LaSalle St., Chicago, Ill.
Beneke, Herman N., Miami University, Oxford, Ohio.
Bernhardt, Joshua, 3028 St. Paul St., Baltimore, Md.
Bircholdt, Miss Harriet, Indiana Univ. Extension Div., Bloomington, Ind.
Blackett, Olin W., Wesleyan University, Middletown, Conn.
Blumberg, Israel, 3148 19th St., N. W., Washington, D. C.
Bohn, Elizabeth H., 50 Orange St., Brooklyn, N. Y.
Brown, Robert R., 100 Broadway, New York City.
Bruyere, A. J., 1017 E. State St., Ithaca, N. Y.
Buchstaff, Geo. A., Oshkosh, Wis.
Bye, Raymond T., University of Pennsylvania, Philadelphia, Pa.
Carlson, Avery L., Morningside College, Sioux City, Iowa.
Carman, George N., Lewis Institute, Chicago, Ill.
Castle, Ernest B., Bronxville, N. Y.
Catlin, Henry W., 71 Broadway, New York City.
Caverly, Harcourt L., 1511 Washtenaw Ave., Ann Arbor, Mich.
Chang, T. S., 162 Shantung Road, Shanghai, China.
Chapman, John M., 523 West 123rd St., New York City.
Clark, Miss Anna M., 600 Lexington Ave., New York City.

Cole, Dana F., Box 1275, Station A, Lincoln, Nebraska.
Collins, P. Wood, Punhab Civil Secretariat, Lahore, India.
Connick, H. D. H., 485 Fifth Ave., New York City.
Conrad, Mrs. Irene F., Carnegie Institute of Technology, Pittsburgh, Pa.
Cooke, Thornton, Columbia National Bank, Kansas City, Mo.
Cornell, C. O., Williams Ave., Hasbrouck Heights, N. J.
Craven, Leslie, Suite 820, 110 S. Dearborn St., Chicago, Ill.
Curtis, R. E., 767 Bateman St., Galesburg, Ill.
Cutcheon, F. W. M., 147 East 36th St., New York City.
Davis, Earl D., 259 Newbury St., Boston, Mass.
Davis, I. G., Connecticut Agricultural College, Storrs, Conn.
Dearing, Fred M., Room 3712, 120 Broadway, New York City.
deBower, Herbert F., Alexander Hamilton Institute, New York City.
DeLooch, R. J. H., Armour & Co., Chicago, Ill.
Dice, Charles A., Ohio State University, Columbus, Ohio.
Dickinson, Z. Clark, University of Minnesota, Minneapolis, Minn.
Dietrich, Miss Ethel B., Wolff Apartments, 14, Racine, Wis.
Dietz, Miss Lorna, 177 West 4th St., New York City.
Dillon, Clarence, 26 Nassau St., New York City.
Douglas, Lewis W., Amherst, Mass.
Dutton, Henry P., 641 Library Place, Evanston, Ill.
Effinger, Robert C., 547 Fifth Ave., New York City.
Eliot, Howard M., College Station, Texas.
Elliott, Roy G., 1603 Canal St., Chicago, Ill.
Esaki, Masumi, The Bank of Taiwan, 165 Broadway, New York City.
Eulambio, Michel S., Waldorf Astoria Hotel, New York City.
Everett, Miss Helen, Vassar College, Poughkeepsie, N. Y.
Frost, Wesley, Department of State, Washington, D. C.
Fry, C. Luther, 45 West 18th St., New York City.
Garrett, Paul W., 120 Broadway, New York City.
Gillett, Roy L., Cornell University, Ithaca, N. Y.
Gittings, John S., The Albany, Washington, D. C.
Glaeser, Martin G., Dept. of Economics, Univ. of Wisconsin, Madison, Wis.
Goggin, Walter J., 61 Rockview St., Boston, Mass.
Goldsmith, Margaret L., 4650 Woodlawn Ave., Chicago, Ill.
Gourvich, P. P., 17-19 Van Reypen St., Jersey City, N. J.
Griffin, C. E., 1116 White St., Ann Arbor, Mich.
Guthmann, H. G., Syracuse University, Syracuse, N. Y.
Hall, Arthur F., Lincoln Life Ins. Co., Fort Wayne, Ind.
Hamilton, James M., Bozeman, Mont.
Hammond, C. B., Acme Wire Co., New Haven, Conn.
Hanger, James H., 1206 N. Clinton Blvd., Bloomington, Ill.
Harlan, Charles L., Atlantic, Iowa.
Hauhart, William F., University of Michigan, Ann Arbor, Mich.
Hayes, Augustus W., 409 N. Baldwin St., Madison, Wis.
Hobbs, Franklyn, 7 S. Dearborn St., Chicago, Ill.
Hodge, Albert C., 5430 Drexel Ave., Chicago, Ill.
Ho-fu, Ling, Bank of China, Changchum, China.

Hojo, S., The Bank of Taiwan, 165 Broadway, New York City.
Horn, Franklin L., 1342 Prospect Ave., Toledo, Ohio.
Howell, M. Hadden, 57 Broadway, New York City.
Iijima, Nanji, Nakanoshima, Kitaku, Osaka, Japan.
Inouye, M., Neshi, Okuho, Tokyo, Japan.
Ishige, T., Bank of Taiwan, 165 Broadway, New York City.
Jameson, Robert M., 525 Boylston St., Boston, Mass.
Jenkins, F. B., Jr., 801 Benton Blvd., Kansas City, Mo.
Jensen, Jens P., 1520 New Hampshire St., Lawrence, Mass.
Johnson, Charles P, 36 University Place, Princeton, N. J.
Johnston, Arnold V., Ohio Wesleyan University, Delaware, Ohio.
Jones Grosvenor M., 44 Pine St., New York City.
Josephson, Reuben, 1135 Tennessee St., Lawrence, Kansas.
Juchhoff, Frederick, William and Mary College, Williamsburg, Va.
Katch, Nobuo, 12 Cozaki-Machi Koishikawa, Tokyo, Japan.
Kent, Fred I., 16 Wall St., New York City.
Keuper, Charles F., 4712 Drexel Blvd., Chicago, Ill.
Kolb, John H., University of Wisconsin, Madison, Wis.
Krueger, Leonard B., 734 Chapman St., Madison, Wis.
Kushida, Tamizo, care Warerasha, No. 3, Kamakura-Machi, Tokyo, Japan.
Kuwata, Kumazo; Ohte-Machi, Kojimachi, Tokyo, Japan.
Kyrk, Miss Hazel, Oberlin College, Oberlin, Ohio.
Landon, Charles E., 12[illegible]5 Oread St., Lawrence, Kansas.
Lanfear, Vincent W., 104 E. 13th St., Austin, Texas.
Leffler, Ray V., 1 Sargent St., Hanover, N. H.
Lewis, Carleton K., 1424 B. St., S. E., Washington, D. C.
Lloyd, Ernst, League of Nations, Room 28, 117 Piccadilly, London, England.
Logan, H. A., Brandon College, Brandon, Man., Can.
Lohman, Clarence, Box 686, Pawhuska, Osage Co., Okla.
Loomis, Kenneth H., Station A, Box 1273, Lincoln, Nebr.
Lubin, Isador, 1158 Baldwin Ave., Ann Arbor, Mich.
McCamic, Charles, Wheeling, W. Va
McCamic, Jay Thomas, 104 Highland Ave., Washington, Pa.
McClean, Lee D., Brunswick, Me.
McMahon, A. P., 50 E. 42nd St., New York City.
McNall, Preston E., 2128 Keyes, Madison, Wis.
Madden, John T., 32 Waverly Place, New York City.
Marshall, Herbert, 102 Patterson Ave., Toronto, Ont., Can.
Matherly, Walter J., Georgetown, Ky.
Merkel, Harold L., 674 Washington St., Brookline, Mass.
Merwin, Louis B., Bloomington, Ill.
Miller, Earl J., 402 E. Chalmers Ave., Champaign, Ill.
Miller, Sidney L., University of Wisconsin, Madison, Wis.
Mitchell, Waldo F., 6112 Kimbark Ave., Chicago, Ill.
Moore, Roy, 2714 Reed St., Cheyenne, Wyo.
Murchison, Claudius, Hunter College, New York City.
Murphy, Herman K., P. O. Box 143, Clinton, N. Y.
Murray, J. Vincent, P. O. Box 164, Rochelle, Ill.

Muto, S., Kure City Hall, Kure City, Japan.
Needham, M. H., Macomber & Whyte Rope Co., Kenosha, Wis.
Newman, Andrew J., 1803 Massachusetts Ave., Lawrence, Kansas.
Nichols, Henry A., Houghton Mifflin Co., 4 Park St., Boston, Mass.
Noordhoff, P., Bookseller, Groningen, Netherlands.
Ogren, John W., 407 Conway Bldg., Chicago, Ill.
Ostlund, Harry J., 309 17th Ave., S. E., Minneapolis, Minn.
Pagel, Benjamin S., 147 King Ave., Detroit, Mich.
Patton, Francis L., New York University, Washington Sq., New York City.
Paulman, Henry, 5816 Blackstone Ave., Chicago, Ill.
Payne, Mrs. Harry D., 754 Westgate Ave., St. Louis, Mo.
Peisch, Archie M., Box 434, Station A, Ames, Iowa.
Pell, William J., Claremont, Calif.
Pelz, Victor H., University of Minnesota, Minneapolis, Minn.
Perrin, Charles C., 137 South 5th St., Philadelphia, Pa.
Perrine, S. Alden, 1109 Perrine Ave., Centralia, Ill.
Person, H. S., Taylor Society, 29 West 39th St., New York City.
Pierce, Joseph A., Box 96, Fargo, N. D.
Pillsbury, A. J., 440 66th St., Oakland, Calif.
Pinney, William E., Valparaiso, Ind.
Powell, Ben H., Gulf Bldg., Houston, Texas.
Prickett, Alva LeRoy, Bloomington, Ind.
Rauchenstein, Emil, 1204 S. Carle Ave., Urbana, Ill.
Reed, E. Howard, Reed & Prince Mfg. Co., Worcester, Mass.
Reighard, John J., 1502 Cambridge Ave., Ann Arbor, Mich.
Rickert, Harvey L., Lincoln, Ill.
Ringwalt, Ralph C., Mount Vernon, Ohio.
Robinson, Leland R., 89 Carnegie Ave., East Orange, N. J.
Roorbach, George B., 16 Kirkland Road, Cambridge, Mass.
Roth, Walter J., 1210 W. Springfield Ave., Urbana, Ill.
Rue, Francis J., The Phila. National Bank, Philadelphia, Pa.
Ryan, S. Raymond, 729 Munsey Bldg., Baltimore, Md.
Sanders, Dora L., Vanderbilt Library, Nashville, Tenn.
Sandwell, Bernard K., 39 Third St., St. Lambert, Que., Can.
Schmitt, Herbert N., 1052 Olivia Ave., Ann Arbor, Mich.
Schmuckler, Jacob, 74 Broadway, New York City.
See, Dr. Chong Su, P. O. Box 18, Manila, P. I.
Shelton, W. A., 3211 Tennyson St., Chevy Chase, D. C.
Shizuka, Tojiro, 3-chome, Kitahma, Higashiku, Osaka, Japan.
Silva, Francisco S., 14 Praca do Rico de Janeiro, Lisbon, Portugal.
Slichter, Sumner H., 30 Linden Lane, Princeton, N. J.
Smith, Frederic A., Lathrop Building, Kansas City, Mo.
Smith, Herman H., Lamoni, Iowa.
Smith, W. Wilberforce, The James Milliken University, Decatur, Ill.
Spahr, Walter E., Hanover, N. H.
Spiegler, Louis E., 717 11th St., N. W., Washington, D. C.
Squires, B. M., U. S. Dept. of Labor, Washington, D. C.
Staley, John W., The Peoples' State Bank, Detroit, Mich.

Stannard, John W., 171 Gladstone Ave., Detroit, Mich.
Stark, Walter R., 520 S. Division St., Ann Arbor, Mich.
Stebbins, Miss Lucy W., 2731 Durant Ave., Berkeley, Calif.
Steiner, Jesse F., 1319 Floral St., N. W., Washington, D. C.
Stemple, H. P., 54 W. Central Ave., Delaware, Ohio.
Stern, Alfred W., 4616 Drexel Blvd., Chicago, Ill.
Stone, Milon M., 55 Kensington St., New Haven, Conn.
Suen, Charles H. T., Canton Christian College, Canton, China.
Suits, W. E., 718 Forest Ave., Wilmette, Ill.
Suzuki, Yoshio, Tokyo Imperial University, Hongo, Tokyo, Japan.
Sy Cip, Alfonso C., Siy Cong Bieng & Co., Manila, P. I.
Sykes, Clara F., 422 Fourth St., S. E., Minneapolis, Minn.
Symes, Don F., Harveyville, Kansas.
Takemura, Kinjiro, 10 Nishikatamachi, Hong-ku, Tokyo, Japan.
Takagi, care "Balbaika" Kuhara, Kogyo Kaisha, Marunouchi, Tokyo, Japan.
Tapley, Gilbert H., Amos Tuck School, Hanover, N. H.
Taylor, Alonzo E., University of Pennsylvania, Philadelphia, Pa.
Taylor, Arthur G., 4046 S. Michigan Ave., Chicago, Ill.
Taylor, Joseph E., Doane College, Crete, Nebr.
Tilton, Asa C., 126 West 85th St., New York City.
Ting, Kiangsi Jih Nyih, 30 N. Szechuen Rd., Shanghai, China.
Tippetts, Charles S., Graduate College, Princeton, N. J.
Truesdell, Leon E., 4201 New Hampshire Ave, N. W., Washington, D. C.
Tryon, Fred G., U. S. Geological Survey, Washington, D. C.
Unzicker, Anna, 540 Melrose St., Chicago, Ill.
Van Riper, Christian, 141 West Frambes Ave., Columbus, Ohio.
Van Sant, John W., 8153 19th St., N. W., Washington, D. C.
Viner, Jacob, Faculty Exchange, University of Chicago, Chicago, Ill.
Vinson, R. E., University of Texas, Austin, Texas.
Wakabayashi, E., Yokohama Specie Bank, Ltd., Fort Bombay, India.
Walker, Burnett, 56 William St., New York City.
Walker, Q. Forrest, 89 Remsen St., Brooklyn, N. Y.
Walker, Sydnor H., 1707 Rittenhouse St., Philadelphia, Pa.
Wang, Hsuan, 607 S. Crouse Ave., Syracuse, N. Y.
Warriner, Arthur P., General Motors Corp., Book Bldg., Detroit, Mich.
Wasserman, Max J., Commerce Building, University of Illinois, Urbana, Ill.
Watanuki, Tetsuo, Tokyo Higher Normal School, Tokyo, Japan.
Webb, Rev. Ernest C., 3508 Pestalozzi St., St. Louis, Mo.
Weisman, Russell, Adelbert College, Cleveland, Ohio.
Wellman, Harry R., Dartmouth College, Hanover, N. H.
Whelpton, P. K., College Station, Texas.
Wigent, W. D., 623 S. Wabash Ave., Chicago, Ill.
Willard, John D., Mass. Agricultural College, Amherst, Mass.
Willett, Allan H., Bureau of Labor Statistics, Washington, D. C.
Williamson, Rutherford, 86 Adelaide St., E. Toronto, Ont., Can.
Willits, Joseph H., Univ. of Pennsylvania, Philadelphia, Pa.
Wilson, Milburn L., University Club, Madison, Wis.

Wong, Y. W., 141 Szechuen Road, Shanghai, China.
Wood, Hew R., 909 Lewis Bldg., Montreal, Canada.

The next international eugenics congress is to take place in the American Museum of Natural History in New York, September 22-28, 1921, under the presidency of Dr. Henry Fairfield Osborn.

The seventeenth annual competition for prizes offered by Hart Schaffner & Marx for studies in the economic field has been announced. The special subjects contested for this year are as follows:

1. The economic effects of the accumulation of gold by the United States during the European War.
2. A study of the policy of the Federal Reserve Board during the war.
3. The course of foreign exchange between the United States and neutral countries during the war and the period of readjustment.
4. The probable future of the skilled artisan.
5. The effect of the European war on the export trade of Great Britain.
6. The development of the world's production of meat.

Particulars with regard to the competition may be obtained from J. Laurence Laughlin, University of Chicago, Illinois.

Announcement has been made of the first awards granted by the committee in charge of the Amherst Memorial Fellowships. One has been given to Dr. Luther Lee Bernard, professor of sociology in the University of Minnesota, who will spend the coming year in making a study of the influence of environment upon the development of personality. The second award is to Mr. Carter Lyman Goodrich, a graduate student at the University of Chicago, who will spend the two years of his fellowship in a study of the underlying causes of the movement for workers' control. The third award is to Mr. Leland Hamilton Jenks, a graduate student at Columbia University, who will devote two years to making a study of the influence of British foreign investments upon international politics.

A Bureau of Economic Research is being established in New York City by private enterprise, of which Dr. William T. Foster, formerly president of Reed College, will be director. The bureau purposes to examine traditional economic theory particularly with reference to money, interest, profits, and wages, in the light of actual present conditions, with the ultimate aim of determining sound and just principles in the distribution of the products of industry. Connections have been established which provide unrestricted opportunity for the study at first hand of some of the largest industrial enterprises in the United States and in Europe. It is announced that there will be complete freedom for the publication of the results of this research.

Georgetown University has issued a bulletin in regard to a new School of Foreign Service, relating more particularly to foreign commerce.

The Collège des Etats-Unis d'Amérique (24 Boulevard des Capucines, Paris) has issued pamphlets on *Educational Resources in France*, outlining courses which are open in sociology, commerce, and other subjects.

The Bureau of Education of the Department of the Interior has published Bulletin No. 58, *Commercial Engineering*, a report of a conference on commercial engineering education held in Washington, June, 1919, prepared by Glen L. Swiggert (Washington, pp. 180).

Mr. E. W. McCullough has been made manager of the new Industrial Production Department of the United States Chamber of Commerce. This new department will be divided into two sections, one to deal with natural resources and the other with fabricated production.

Leland Stanford Junior University has instituted a course in the problems of citizenship, to be required of all students entering October, 1920, and thereafter. Social problems, economic problems, and political problems are included.

Oxford University Press, American Branch, is publishing a series of *Oxford Tracts on Economic Subjects*. The first set of seven, four pages each, relates to The approach of economics, What is economics? The industrial conflict, Why nations trade, Real wealth and real wages, Capital, capitalism, and capitalists, The present position of agriculture. The price per set is fifty cents.

The University of Chicago Press announces for fall publication *Business Administration*, by Professor L. C. Marshall, and *Financial Organization of Society*, by H. G. Moulton.

Leonard Parsons Ltd. (Portugal Street, Kingsway, W.C.2, London) has published in the New Era series bulletins on *Guild Socialism (Restated)*, by G. D. H Cole; *A Policy for the Labour Party*, by J. Ramsay Macdonald: *National Finance and the Labour Party*, by Philip Snowden; *Land Nationalisation*, by A. E. Davies and Dorothy Evans; and *The New Labour Outlook*, by Robert Williams. These are sold at 4s. 6d. each.

The I. W. W.: A Study of American Syndicalism, by Paul F. Brissenden, has gone into the second edition (Columbia University Studies).

Professor Irving Fisher's work on *The Purchasing Power of Money* has recently appeared in a French edition (Paris, Giard et Brière).

The Harvard Bureau of Business Research (M. T. Copeland, director) announces the publication of a monthly summary of cloth prices in foreign and domestic markets. The price of the bulletin is $1 a copy and subscription to the summaries for one year, including the bulletin, is $10.

Volume IV of the current *Handbuch der Politik*, published by Walter Rothschild (Berlin and Leipzig), contains studies on the finances of Germany during the war, direct and indirect taxes, the land question, industry and trade, socialization of industry, commerce, and labor.

The National Shawmut Bank of Boston is publishing a monthly *Foreign Trade Review*.

The Southwestern Political Science Association issued in June, 1920, the first number of a *Quarterly* (C. P. Patterson, Secretary-Treasurer, University Station, Austin, Texas).

In April there was begun the publication of a new *Bulletin du Ministère de l'Agriculture de la République Tchécoslavaque* (Prague).

The Institut International de Statistique is publishing a monthly bulletin, *Bulletin Mensuel de l'Office Permanent*. The first number, May, 1920, contains statistics of wholesale prices, index numbers, and unemployment (The Hague, W. P. Van Stockum & Fils, pp. 64).

Appointments and Resignations

Mr. B. M. Anderson, Jr., has resigned his position with the National City Bank of Commerce to accept a position as economist with the Chase National Bank of New York.

Mr. Walter G. Beach, formerly dean at the State School of Agriculture, Pullman, Washington, has been appointed professor of social science at Stanford University.

Dr. Jeffrey R. Brackett, founder of the Boston School for Social Work and its director for eighteen years, has retired from office.

Dr. Norris A. Brisco, of the State University of Iowa, has been appointed to the chair of merchandising at New York University.

Professor J. R. Commons, of the University of Wisconsin, was a delegate from the American Association for Labor Legislation to the convention of the Wisconsin State Federation of Labor, at La Crosse, July 21-23.

Mr. E. G. Davis has been appointed instructor in accounting in the University of Nebraska.

Professor John H. Gray has resigned from the University of Minnesota to become professor of economics at Carleton College, Northfield, Minnesota. During the summer he has been connected with the Bureau of Valuation of the Interstate Commerce Commission.

Mr. A. P. Haake has been promoted to an assistant professorship in business administration at the University of Wisconsin.

Professor Hudson B. Hastings has resigned his position at Reed College and will give his time to the work of the Bureau of Economic Research which is being established in New York City.

Dr. Lewis H. Haney, formerly with the Federal Trade Commission, has been appointed specialist in economic research in the Bureau of Markets of the United States Department of Agriculture. He will conduct costs of marketing studies relating to certain representative agricultural products.

Colonel R. H. Hess, formerly associate professor of economics at the University of Wisconsin, has been called back into active service and sent on a special confidential mission representing Secretary Baker. His headquarters are at Coblenz with the American Army of Occupation.

Mr. D. D. Hughes has resigned as assistant professor of rural economics at the Ohio State University to become district sales manager for the Vaile-Kimes Company, Dayton, Ohio.

Mr. J. Hugh Jackson, formerly assistant professor of accounting in the University of Minnesota, has been appointed assistant professor of accounting at Harvard University in the Graduate School of Business Administration.

Mr. Harry Jerome has been promoted to an assistant professorship in the department of economics at the University of Wisconsin.

Dr. Eliot Jones has been promoted to a full professorship at Leland Stanford University.

Mr. Glenn R. Johnson has been appointed instructor in sociology and economics at Bowdoin College.

Associate Professor William H. Kiekhofer has been promoted to a full professorship at the University of Wisconsin.

Dr. Willford I. King is now with the National Bureau of Economic Research as economist.

Mr. Thomas S. Luck, formerly instructor at Vanderbilt University,

has been appointed assistant professor of economics at Indiana University.

Assistant Professor E. V. McCullough has resigned his position at Pennsylvania State College to accept a position of similar rank at Indiana University.

Mr. Lloyd Maxwell has resigned his position as special expert with the United States Tariff Commission to accept the secretaryship of the Chamber of Commerce at Newberry, S. C.

Mr. H. H. Maynard, of Vanderbilt University, has resigned his position to accept an appointment as assistant professor of business administration at the State College of Washington, Pullman, Wash. During the summer he gave courses in the summer session of the State University of Iowa.

Professor H. A. Miller, of Oberlin College, is traveling in Middle Europe this summer studying conditions there.

Dr. Charles S. Morgan, who recently served as associate economist in the Bureau of Standards, Washington, has accepted the position of valuation analyst with the Interstate Commerce Commission.

Dr. H. H. Preston, of Oberlin College, has been appointed assistant professor at the University of Washington, Seattle, Washington.

Professor George E. Putnam has resigned from Washington University to accept a position in the Commercial Research Department of Swift and Company.

Professor H. L. Reed, of New York University and formerly of Cornell, has been appointed professor of finance at Washington University, St. Louis, Missouri.

Professor Jesse S. Robinson has resigned his position in Simpson College, Indianola, Iowa, to become professor of economics in Carleton College, Northfield, Minnesota.

Professor E. A. Ross has been granted leave of absence for the first semester of 1920-1921, from the University of Wisconsin.

Dr. A. M. Sakolski, of the Equitable Trust Company of New York, will resume his lecture work at New York University in October.

Professor Horace Secrist, of Northwestern University, has been appointed supervising statistician of the United States Railroad Labor Board. Professor Secrist is to supervise and coördinate the statistical activities of the board and to act in an advisory capacity on matters

of statistical interpretation and presentation in the decisions, reports and findings of the board. He retains his connection with Northwestern University.

Dr. R. A. Stevenson, who has been associate professor of accounting in the University of Iowa, has been elected professor of accounting and chairman of the commerce group in the College of Engineering and Commerce at the University of Cincinnati

Mr. C. Edgar Taylor. formerly with the Federal Employment Service, has been appointed instructor in economics at the Massachusetts Institute of Technology.

Professor M. W Thompson, of Marquette University, has been appointed to take charge of work at Indiana University for Professor J. B. Phillips who has been granted a year's leave of absence on account of illness.

Mr. Alexander Trachtenberg, director of the department of labor research of the Rand School of Social Science, has been granted a leave of absence to organize and take charge of a research and statistical department of the International Ladies Garment Workers Union.

Professor Jacob Viner, of the University of Chicago, has been doing work during the summer for the United States Tariff Commission.

Dr. W. O. Weyforth, associate in political economy in Johns Hopkins University, is a member of the staff of the National Bank of Commerce of New York for the summer months, specializing in foreign trade and exchange.

Dr. H. B. Whalen, who has been associate professor of transportation in the University of Iowa, has been appointed professor of economics in the College of Engineering and Commerce, University of Cincinnati.

Dr. Nathaniel R. Whitney who has been associate professor of finance at the State University of Iowa, is to be professor of finance in the College of Engineering and Commerce, University of Cincinnati.

Dr. K. M. Williamson, who has been assisting in the department of economics at the Massachusetts Institute of Technology and at Harvard College, has been appointed assistant professor of economics at Wesleyan University, Middletown. Connecticut.

Notes

Dr. Arthur N. Young has been appointed financial adviser to the government of Honduras.

Professor Charles Franklin Emerick, head of the department of economics and sociology at Smith College, died March 22, 1920. Professor Emerick had been a member of the Smith College faculty for twenty-one years.

The
American Economic Review

VOL. X DECEMBER, 1920 No. 4

PRICE ECONOMICS VERSUS WELFARE ECONOMICS: CONTEMPORARY OPINION

In a former paper was sketched the origin and main features of "price economics," and various protests against it were described. This survey extended to the last quarter of the nineteenth century, the post-Ricardian period following the death of J. S. Mill, during which time criticism and rejection of the main tenets of price economics seemed well nigh universal, even among the professional economic students in England and America.[1] If, indeed, the change of opinion had been as complete as it seemed, it would put a terminus to our inquiry at this point. But the conception of price economics had very tenacious roots, and sprang up vigorous again in the writings of authors where it had been blasted in leaf and branch. We even hear it seriously contended now that price economics is the ideal for the future, not the outgrown error of the past. It remains for us in this paper, therefore, to inquire as to the present state of opinion on this subject, and to formulate the issue that presents itself to every serious economic student.

I. *Alfred Marshall's dilemma.*

Alfred Marshall, the venerable dean of English economists, forms a bond between the later nineteenth and the early twentieth century economics, and by his remarkable talent for eclecticism probably embodies and exemplifies better than any one else the more generally prevailing uncritical opinion among English and American economists. His views on the subject in hand were set forth in a paper read by him in 1896[2] before the Cambridge Economic Club. The larger part of that paper was taken up with what Marshall himself calls the "technical aspects of an-

[1] AMERICAN ECONOMIC REVIEW, vol. X, no. 3 (Sept., 1920).

[2] See *Quarterly Journal of Economics*, vol. 11, pp. 115-135, "The Old Generation of Economists and the New," an address delivered at Cambridge, England, October 29, 1896.

alysis."[3] The other points of the paper, which bear more directly upon our present problem, may be summarized as follows:

1. Economic science is less dogmatic; it has become less confident than it was thirty years before (*i.e.*, 1866). "It is now patent even to those that are in a hurry, that no practical problems can be settled offhand by appeal to general doctrines; for the things of which account must be taken are so diverse." (Pp. 116-119.)

2. The new economics is less abstract; it deals "with the whole of man's nature, though" it lays "chief stress on certain special aspects of it"; this calls for the use of more and broader history. (Pp. 120-122.)

3. The economist is no longer commercially minded, having lost his upper-class bias. "The academic economist . . . accepts the premises of the working classes that the well-being of the many is more important than that of the few." (This is followed by the warning that it is often the economist's duty to combat popular and fashionable demands that would cause a loss greater than the benefit.) (Pp. 128-130.)

He is thus led to this quite Ruskinian thought, the philosophic conception of a welfare economics: "Social good lies mainly in that healthful exercise and development of faculties which yields happiness without pall, because it sustains self-respect and is sustained by hope."[4] He concludes with an exhortation to the oncoming generation of economists to apply their powers and "sympathies towards the great task of utilizing the present waste products of human effort for the production of human lives that are joys in themselves and the sources of joy, and to press on steadfastly towards the distant goal where the opportunities of a noble life may be accessible to all."[5]

[3] These were: the changes brought about by contact with the physical sciences, in the economists' doctrines of tendencies (pp. 122-123); the greater effort, not yet thoroughly successful, for quantitative analysis (pp. 123-128); "the difficulty of forecasting the nature of the problems which will chiefly occupy the coming generation," for example, the effect of changes in the size of business upon the motives of industrial officials (pp. 130-133); the controversy as to method which, he believed, had been worked through "to the extinction of that controversy," inductive and deductive study being supplementary and both essential (p. 133).

[4] *Idem*, p. 134.

[5] *Idem*, p. 135. Substantially the same views are developed at greater length in Book I of his *Principles*, and incidentally at many other points.

These articles of faith of the neo-Ricardian school evidently differ greatly from those of the old price economics,[6] but just how greatly the old has been modified it is impossible to judge from any such general expressions of faith as Marshall has given. In the application of professions of faith to the actions of practical life so much depends on personal sympathies, on firmly fixed habits of thought, on old intellectual categories unconsciously influencing conclusions.

There is, indeed, a thoroughgoing inconsistency in Marshall's views as to the central aim of economics. On the one hand he would aim to be a welfare economist, as is indicated by the expressions just referred to. He aspires to make economics a study of real human welfare. But Marshall has also another aspiration, which is constantly tempting him to think and speak as a price economist rather than as a welfare economist. He aspires to make economics an exact science, to give to its conclusions the mathematical exactness of the physical sciences, and he sometimes allows his hope to parade as reality. At one time referring to economics as a social science, the one that has outstripped "every other branch,"[7] he speaks of it a few pages later[8] (probably by a slip of thought, but a significant one) as one of the physical sciences though "the least advanced." The advantage and the hope of economics, as he sees it, is in the fact that in price is found "in a form which is easily measurable those desires, aspirations, and other affections of human nature."[9]

Thus he is led to abandon welfare as the center of economic study and to make money "the center around which economic science clusters"[10] and to use it as "the one convenient means of measuring human motive on a large scale." Thus we find him attempting to revise economics by making it more than ever a study of monetary prices and less a study of the process of individual valuation, of human motives, and of human welfare, that underlie and relate to prices.

But almost in the same breath Marshall gave up the case, and undermined the very basis of his own attempt to measure human

6 See American Economic Review, September, 1920, p. 472.

7 Marshall, *Principles of Economics*, p. 75.

8 *Op. cit.*, p. 88.

9 *Op. cit.*, p. 75.

10 As Professor W. C. Mitchell has approvingly shown in "The Rôle of Money in Economic Theory," American Economic Review, Supplement, vol. VI (Mar., 1916), p. 151.

motives (one man's with another, and generally the motives of the mass of men) by prices or by any other standard available. He confesses that when economic studies "are being applied to practical problems" the economist has to "concern himself with the ultimate aims of man" and recognize that equally balanced price motives are often different in "real value" as affecting character and welfare.[11] He admits that the same price "measures different satisfaction" to different persons, even to those with equal incomes.[12] After struggling with this awhile he concludes: "Nevertheless, if we take averages sufficiently broad to cause the personal peculiarities of individuals to counterbalance one another, the money which people of equal incomes will give to obtain a benefit or avoid an injury is a good measure of the benefit or injury."[13]

He finds other difficulties when he attempts to make price the measure of motives as between men of different incomes;[14] equal sums of money are sought as general purchasing power by different persons for the most diverse motives "high as well as low, spiritual as well as material."[15] Many considerations come in, he admits, to make equal sums of money of unequal importance to the same man at different times, and to different men at the same time—physical attractiveness of surroundings in occupations, social position, family affection, and many other things.[16] Despite this proof that money price does not and cannot even remotely measure the motives of the same man at different times or of different men at the same time, he nevertheless stubbornly asserts that "money or material wealth" is to be made the center "because in this world of ours it is the one convenient means of measuring human motive on a large scale."[17]

In accord with this purpose, he makes use constantly of mathematical figures and diagrams according to the method of Cournot. Most of these are relegated later to the appendix (see preface to first edition) and though they are used only "as supplementary illustrations" they seem to have served to strengthen Marshall and also his disciples in the belief that he had attained to exact mathe-

11 See Marshall, *op. cit.* (4th ed.), p. 77, and generally pp. 75-90.

12 *Idem*, pp. 78-79.

13 *Idem*, p. 79.

14 *Idem*, p. 80.

15 *Idem*, p. 83.

16 *Idem*, pp. 84-88.

17 *Idem*, p. 83.

matical expression of the essential economic motives. But in what part of his work do the results conform to a mathematical standard? Where has he succeeded in measuring and recording economic motives? What part of the value of his work is attributable to his success in this respect? The answer can hardly be in dispute: none, nowhere, nothing at all.

We may not be able to reconcile these two phases of Marshall's thought, but just to recognize his dualism helps us better to interpret him. He is a link between the nineteenth and the twentieth centuries. In his price economics he is, as in other respects, a faithful guardian of the Ricardian tradition. We know that he defends, while he slightly and regretfully amends, the value theory, the fundamental concepts, and the general economic theory of distribution left by Ricardo and Mill. He retains, with a certain clannishness, the heritage of English orthodox economic doctrine, despite some consciousness of its inconsistencies.[18] In his thought the difference between old Ricardianism and neo-Ricardianism is not one of radical change but one of grudging verbal amendment of errors exposed by critics from other schools.

But in his most attractive aspect Marshall is more than a Ricardian and, forgetting to be a price economist, is concerned with human welfare. It is this human element, usually evident in his inquiries, qualitative, not quantitative, that is perhaps the firmest foundation of his reputation, and that commands the respect even of those who deplore his eclecticism in matters of principle, his evasive definitions, and his apologies for the sophistries of Ricardianism.

II. *Wesley C. Mitchell's dilemma.*

Let us turn now to the consideration of the plea for price economics, made by Professor Wesley C. Mitchell.[19] His really astonishing thesis may be fairly summarized in two propositions as follows:

1. The subject of money should be the center of economic study; money furnishes the best framework, it clarifies, it simplifies, it makes the study more realistic, more useful, more fruit-

[18] Marshall, *Principles of Economics*, see preface to first edition, and index under "Ricardo."

[19] In a paper read at the annual meeting of the American Economic Association in December, 1915. American Economic Review, Supplement, vol. VI, (Mar., 1916).

ful, more profound. "Because it thus rationalizes economic life itself, the use of money lays the foundation for a rational theory of that life" (*op. cit.*, p. 157). "Money many not be the root of *all* evil, but it is the root of economic science" (*op. cit.*, p. 157).

2. Every recent tendency, every type of economic theory current at present (*op. cit.*, p. 154), no matter how unlike it may appear to be in form and in emphasis to price, or monetary, economics, no matter how strongly its devotees may believe and protest that they are not concerned primarily with price and the money calculus, does, "in one way or another, tacitly or explicitly" make money the center around which economic science centers.

The first thought involves a comparison: price is a better and "more" suitable center of economic study than was that of the older economics, or than is any alternative suggested by contemporary schools. This implies that the grave fault of the older orthodox economists was that it did not go far enough in making price the center of its inquiry—an astonishing and whimsical proposition. What are the present alternatives that are rejected as less important or proper for economic inquiry than price economics, and what proof is offered that they are less important or proper? Little that is definite is said on either of these questions, but Mitchell depreciates the study of (subjective) valuation and the psychology of behavior as a groping "in that dark subjective realm" which, he feels, it is safer for a man without a lantern to leave unexplored.[20] Likewise, while he admits the study of social welfare to be important and conceivably capable of scientific treatment, he condemns it at present and waives it off into an indefinite distant future until we get "a clearer insight into the industrial process of making goods, the business process of making money."[21] This is courageous commercial economics.

The first of Mitchell's two propositions thus appears to be with him more an article of faith, a proposition self-evident, rather than one calling for evidence and proof beyond the few confident generalizations cited. Our historical sketch of the older doctrine surely shows that it is not, and can not be accepted as axiomatic; rather that it is rejected by nearly every one who examines it. The real purpose of the paper before us is expressed in the second

[20] *Idem*, p. 158.
[21] *Idem*, p. 160.

paragraph as formulated above. Mitchell sought to bring to the support of his own belief the example and authority of all the various recent schools of economic thought, minimizing and ignoring difference of opinion. There is a sweetness of temper about this sort of argument in pleasing contrast with the more usual type of economic criticism in which differences are emphasized and opposing opinions condemned. So Mitchell amiably declares that this tendency to make money the center of economic study is one to be fostered;[22] of all recent tendencies in economic theory none is "more promising."[23] Every evidence of this tendency that he discovers or believes he has discovered, evokes his praise. Whatever of gently sarcastic disapproval he expresses or implies is called forth by the persistence of others in thinking they are doing something different when they really are not, or again in thinking that anything different is worth doing.[24]

The best examples Mitchell cites of price economics are the "price theorists," as he calls them, said to be represented on the continent by Walras (hardly to be cited as exemplifying recent tendencies), by Pareto and his disciple Zawadzki, and by Schumpeter (in some respects); and in England by Edgeworth and Wicksteed. No American name was, or properly could be, added by Mitchell in this connection (Irving Fisher, a strong admirer of Cournot, has to be classified elsewhere) unless it be that of Mitchell himself.

He frankly avows his ideal to be the mathematical method of Cournot. He exults that "in thus singling out the use of money as bringing system into economic behavior, as providing the basis for exact analysis, current theory is returning to the starting point from which Cournot set out on his researches in 1838."[25] His explanation of the way in which economists have come to this result is not flattering to their intelligence: "It is the result of learning by trial and error." "In working out, in treatise after treatise, a reasoned account of how men behave, they [economists] have come, without foreseeing what they were doing, to the basis on which Cournot built in 1838."[26]

[22] AM. ECON. REV., SUPP. Vol. VI, p. 161.

[23] *Idem*, p. 140.

[24] This last thought Mitchell cautiously qualifies in his concluding section. See below, p. 726.

[25] AM. ECON. REV., SUPP. Vol. VI, p. 154.

[26] *Idem*, p. 157.

Mitchell evidently approves the group of price theorists wellnigh absolutely, voicing only a mild suggestion that in dropping entirely the theory of valuation (all interest in individual choice) "price theory" has less significance to the business man than has the theory of the psychological school. The example of the few price theorists mentioned surely has no weight as showing a trend toward price economics in America, and very little as showing such a trend elsewhere.

The last section of Mitchell's paper causes us to wonder whether, after all, his whole argument is not to be taken in a Pickwickian sense. Or is he a bit alarmed by his own conclusion that all economic opinion is moving toward price economics? For, quite in the manner of Marshall, he proceeds to issue various warnings and to place various limitations that give a very different meaning to what he had said, if they do not deprive it of all meaning. Mitchell's own most notable work has been distinctly in the legitimate field of price economics (in his study of crises, of greenbacks, and of index numbers) and he feels a natural confidence in, and a liking for, that branch of inquiry. But having, as he believes, convinced his readers that price economics is the ideal, he suddenly becomes fearful of the consequences, and draws back with cautious protests. He says that we are not to confine our theorizing to the pecuniary aspect of life; it is but one of two objective processes, the other being the making of goods; these processes serve to yield both satisfaction to the individual and material welfare to the community. "Now our interest in economics *centers in* its bearing upon *social welfare* in the present and the proximate future." Were we not told that money "is the center around which economic science clusters?" Was that mere jesting? No, not exactly, for, after another paragraph filled with expressions of hopes of large results from a future "institutional theory" of money, Mitchell reaffirms his thesis as to price economics, and concludes with assertions that making it the center of economic study will clarify economic theory, make it more useful, more realistic, more interesting, more profound.

III. *The neo-classicists.*

As another group of witnesses for the tendency to make price the center of economic study Mitchell cites the neo-classical economists, but discusses only one representative, Alfred Marshall. Mitchell fails to see the duality we have observed in Marshall,

and praises his price economics because "money clarifies obscure relations," and "simplifies economic thinking both for the man in the street and for the economist in the study."[27] Mitchell has overlooked both Marshall's praise of welfare as the center of economic interest, and his admissions of the fundamental weaknesses in price economics.

Every other economist properly to be included among the neo-classicists would be an even more refractory witness to Mitchell's contention, betraying little trend away from Mill's general attitude toward price. All share with Marshall more fully his welfare than his mathematical price tendencies. Take, for example, Taussig. He, like Marshall, shows conflicting tendencies, but does much straighter thinking. Taussig concedes that "in the final analysis, the income of an individual or of a community consists of a sum of utilities [meaning, by that, "psychic income," a term which he uses in this connection] steadily accruing from its store of economic goods."[28] But, though this is the really important thing, he sees that it is not expressible in statistical form, and therefore rejects the attempt to ascertain or consider it, thinking it "best to content ourselves with a statement, and an attempt at measurement in terms not of utility but of money income or of real income." What follows shows that he would take money as the standard only when prices are unchanged and only because it fairly reflects "real income" of "consumable commodities," which he evidently thinks is a much more accurate evidence of "material welfare" than are money prices. This "real income" can, he shows, be in part measured directly; and monetary statistics are of significance only because with "sufficient accuracy" they help to measure these things. Later[29] in considering changes in the level of prices he warns against misunderstanding of the true significance of money, for "prosperity depends on the abundance of things exchanged, not on that of the counters used in effecting the exchanges." These and other more or less conflicting echoes of expressions both from Mill and from Marshall indicate that Taussig at least would prefer to be a welfare economist, but turns as necessary second choice to real income, and only in the third place cautiously turns to money prices to find a numerical expression of economic quantities. Taussig, who is more repre-

[27] *Op. cit.*, p. 153.
[28] Taussig, *Principles of Economics*, vol. I, p. 134.
[29] *Op. cit.*, p. 234.

sentative of American neo-classical economists than is A. Marshall, surely cannot be cited as proof of an increasing tendency toward making price "the center around which economics clusters."

In his masterly review of the newer economic theory in the United States,[30] Professor Joseph Schumpeter thought he could distinguish four groups: "Clark and his tendency (Columbia group), Taussig and some others (Harvard group), Patten and his pupils (Wharton School group), Ely and his circle (Wisconsin group)—somewhat thus it looks to the outsider." This classification, of course, overlooks many important differences; it classes with the Columbia group men identified with Yale, Princeton, Cornell and other universities; it classes with the Harvard group men at other universities, especially Chicago; yet the generalization is in many ways striking and significant. It may serve to show in broad outlines the futility of the claim that American economists have been tending away from a welfare and toward a price economics.

Of these four, the Taussig-Harvard group is the most conservative in the matter of doctrine, nearest to the thought of J. S. Mill. Yet, with the exception of J. L. Laughlin and a few of his pupils at Chicago (notably W. C. Mitchell and H. J. Davenport), it would be difficult to find in this group any evidence of a tendency toward price economics rather than away from it. Certainly Carver, Ripley, Kinley, Gray, Field, Leon P. Marshall, Hoxie, Hamilton, Stewart (to name only a few), with their broader social sympathies or their recently developed interest in institutional history, would not serve as witnesses for such a claim.

The Ely-Wisconsin group—merely to mention it, is to call to mind the pioneer and lifelong work of Professor Ely in developing the social welfare conception of economic problems in America.[31] His pupils or colleagues include Dewey, Commons, Barnett, B. H. Meyer, T. S. Adams, Bullock, Ross, Haney, H. C. Taylor. The "Wisconsin idea" in economics was father to the "Wisconsin idea" in general university policy, and it animates students in every quarter of this land. The scholarly paper on "The Social Point of View in Economics," by a well known member of this group,[32] may fairly be taken as representative in its strong con-

[30] *Jahrbuch für Gesetzgebung*, etc., 1910, vol. 34, pp. 913-963.

[31] See H. W. Farnam, *Deutsch-Amerikanische Beziehungen in der Volkswirtschaftslehre*, pp. 29-30.

[32] Lewis H. Haney, in *Quarterly Journal of Economics*, vol. 28 (Nov., 1913; Feb., 1914), pp. 115-139, 292-321.

demnation of a competitive individual price economics. It is a far cry from the welfare economics of Richard T. Ely to the price economics of J. Laurence Laughlin.

The Patten group was, in its origin and early growth, closely akin to the Ely group. It is sufficient to mention, besides Patten himself, the names of Devine, Lindsay, and Seager, to suggest to any one acquainted with economic studies in America, the strong social tendencies of this group and its remoteness from any mere price economics.

In matters of economic analysis and the general theory of distribution, the Ely and the Patten groups (as judged today) probably must be counted as neo-classic; less so than the Harvard group, yet more so than in their earlier creative period they believed themselves to be. But both have been much more imbued with the spirit of the historical school, have been more responsive to the Austrian and other impulses from the psychological school, and are more inspired with ethical and social ideals.

IV. *The American psychological school.*

The position of the Clarkian group may be indicated sufficiently for our present purpose by returning here to Mitchell's attempted proof that the American psychological school has "brought money back into the very center of economics." In this fact as Mitchell sees it, is found the essential accomplishment of that group; and for this Mitchell has words of praise qualified only by regret that "these writers have not emphasized the monographic character of their work"[33] and that most of them have stubbornly refused to admit that this was their intention or is their understanding of their results. There is an absurd element in the situation, in that some of us have repeatedly disavowed the opinions which Mitchell compliments. We would gladly believe his words that we have "rendered a notable service" and have helped to clarify the "understanding of economic processes." But truth compels us at least to modify his interpretation of the performance and to deny that we have done this by developing an uncompromising price economics.

We need not tarry to define the title "American psychological school"; Mitchell considers as representative of it but three writers, Davenport, Fisher, and Fetter, and we may limit our

[33] *Op. cit.*, p. 147.

consideration to the names he has chosen. Whatever may be the agreement in the views of these three (and seen from the orthodox or neo-classical standpoint, this must appear to be very considerable—more perhaps, in what they reject of the older doctrine than in their own positive doctrines) there are marked divergences. In the case of Davenport these go so far as to justify his own denial of membership in the psychological school ("I declare that I do not so belong").[34] While Davenport is to be reckoned among those who have modified and have aided to modify in essential respects some of the Ricardian concepts,[35] it is precisely in respect to the psychological aspect of the newer doctrine that he has remained most Ricardian.

I dissent therefore, as did Davenport, from Mitchell's dictum that Davenport's acceptance of the "private and acquisitive point of view" and his definition of economics as "the science that treats phenomena from the standpoint of price" is "the logical outcome" of the psychological doctrine of value. Rather it probably is evidence of the continuing influence of earlier Ricardian training, readjusted under the influence of Veblen who, irresponsibly, delights in a *jeu d'esprit* that reduces to absurdity the entire product of liberal as contrasted with socialistic economics.

In considering how far Fisher is evidence that the psychological school has brought money back into the very center of economics, let us refer, as does Mitchell, to an earlier statement by Professor J. R. Commons, in part to the same effect.[36] Linking the name of J. B. Clark (rather than, as does Mitchell, that of Davenport) with that of Fisher and myself, Commons says: "Scarcely a greater service could have been performed than that of working out to logical exactness the tenets of such a philosophy [*i.e.*, that of business capitalization of incomes]. It enables us to distinguish the true nature of political economy. . . . The work of Clark, Fetter, and Fisher, is admirable and indispensable, not only in its own sphere of business economics but also as a contrast to the sphere of political economics." With these words of praise is mingled a suggestion that the happy result was unintended and even unrecognized. Commons' attitude differs marked-

[34] In the discussion of Mitchell's paper, *idem*, p. 163.

[35] See my critical study, "Davenport's Competitive Economics," *Journal of Political Economy*, vol. XXII (June, 1914), p. 550.

[36] "Political Economy and Business Economy; Comments on Fisher's Capital and Income," *Quart. Journ. Econ.*, vol. XXII (Nov., 1907), p. 120.

ly from that of Mitchell, in that Commons deems that price economics is of limited scope and that price ought not to be taken as the center of economic inquiry. His admirable statement of this work of the newer school may be epitomized as follows:

Old-fashioned economists had the idea that wealth consisted of material things used to promote the welfare of human beings. They got confused in their idea of capital, which in some way they thought ought to be wealth used to get profit. New-fashioned economists saw that the confusion sprang from the idea of value, and they have worked out a clear distinction between the wealth which is the object of use, and capital, which they show has always had in it some thought of the value and ownership of wealth. It was thus a real service to develop the new capitalization concept. The identification of property and wealth causes no confusion where only the positive, or inclusive, side of property is involved. In certain cases, however, the right to keep service from being performed—property in its exclusive or prohibitive sense—may be capitalized (and examples are given from Fisher's writings).

In these cases, and only in these cases, Commons claims, this sort of business economy fails to coincide with political economy. With his opinion, so far as it goes, I agree fully; but I would go even farther. In many cases other than those he mentions, I hold that the value, or property, concept of capital is out of accord with the wealth and welfare concepts.

Commons' examples of the misuse of the new analysis are all chosen from Fisher's writings. It is significant that in a formal reply[37] Fisher made no attempt to justify or explain any of the particular cases indicated by Commons, confining himself to a general disclaimer of concern with business economics to the exclusion of welfare economics. Fisher's paper on "Why has the Doctrine of *Laissez-Faire* been Abandoned?" had been published a year before Commons' criticism. That paper, though not mentioning the capitalization process, went about as far as Commons does, in its clear recognition of the conflict of individual valuations with social welfare. Not long afterward Fisher declared repeatedly[38] and emphatically that "pecuniary concepts in

[37] "A Reply to Critics," *Quart. Journ. Econ.*, May, 1909.

[38] "Capital and Interest," a reply to Veblen, *Political Science Quarterly*, vol. XXIV, p. 504 ff.

general" are "relatively superficial."[39] "Least of all can we get along by means of 'pecuniary concepts'," which fix attention "on the money surface of things."[40] "Money of itself has no force except as it represents other things" etc.[41] Despite all this there is some color of truth in Mitchell's statement that Fisher in his textbook in 1912 gave an "uncompromising pecuniary version of economic behavior."[42] It is true that Fisher puts the accountancy aspects rather prominently in the foreground. We may regret to find certain evidences of inconsistency at points. But no critic, bent upon giving due weight to all parts of the evidence and not seeking in detached expressions and incidents evidence for a foregone conclusion, can find in Fisher any positive proof of a belief in price as the ideal center of economics as a whole. Fisher's notable recent activities, addresses, and writings on public health and in connection with the Association for Labor Legislation, ought of themselves to be a sufficient refutation of any such idea, were there not abundant other evidences. Yet no one could challenge Fisher's great distinction in the field where price economics is legitimate, but kept subservient to the larger ends of social welfare.

May I refer now to Mitchell's interpretation of my position? This is not a question of the truth or error of my opinion, but one of what the opinion is. The real situation, I believe, is explained by Commons above. I have been partly concerned in theory with bringing into clear view a confusion in the concepts of price and of capital that has always been present in economics, and partly with developing thereafter consistently the analysis of price. But instead of viewing this latter work as an ultimate goal, I have recognized in many ways its intermediateness and have always assigned it a place in the general scheme secondary to that of welfare economics. The evidence of this seems to me to be abundant, but to my chagrin, it has escaped Mitchell's attention. He misses, for example, the full import of the change from the Ricardian enterprisers' cost explanation of price to the modern subjective, valuation conception of price formation, in

[39] *Pol. Sci. Quart.*, vol. XXIV, p. 506.

[40] *Idem*, p. 513.

[41] *Idem*, p. 516.

[42] Mitchell says (*op. cit.*, p. 147) that he gave "a more uncompromising version . . . than Professor Fetter had done." Of course I reject the implication in the comparison.

which the valuations both of buyers and of sellers are considered. At one point, to be sure, Mitchell concedes that a theory of valuation adds significance to the price analysis, because the business man is not "indifferent to the grounds of choice" as is the pure theorist (meaning the school of Pareto and Walras). In its context this implies a concession of a minor merit to the psychological school, but merely because it happens at this point to serve a little better the purpose of the business man. In my view a greater merit is that it aids the purpose of welfare economics. There are countless acts and motives, entering into price formation, which have a bearing on the economic welfare of men, but which are quite lost sight of or are glossed over in merely pecuniary calculations.

But further, although Mitchell sees that in my treatment "the pecuniary aspects of economic life . . . are not permitted to cover the whole field," he refers as evidence of this, only to my "brief discussion of the social aspects of value."[43] He has missed a large part of the truth. Again and again in many connections in my treatment are shown the superficiality, the injustice, the immorality of taking pecuniary prices as the indices of social welfare. Again and again it is shown also that the individual's valuation, which helps to form a price and in turn is affected by it, is often opposed not only to the best social ends, but even to his own abiding welfare.[44] A more careful examination will show that I stress throughout the contrast between prices and the uses of goods, between private acquisition and social production, between value and "real" utility. To give a complete list of references would almost necessitate making an index of the contents of the two volumes.[45]

[43] *Op. cit.*, p. 148.

[44] This statement applies to my earlier text of 1904 and even more fully to the two later volumes of 1915 and 1916 in which the arrangement of the materials has been completely recast, but without essential change as to the matter here under consideration.

[45] In the light of these facts, what shall be said of the statement that the difference between Davenport's conception of price economics and mine is "important only from the terminological viewpoint. Both treat social value, and treat it apart from the main body of their theories; one calls this addendum economic theory, the other doesn't" (*idem*, p. 148, note). First, the question is not that of defining what is economic theory, but of defining what is economics. Secondly, my contrast of social aspects of value (or welfare considerations) with price calculus is no mere addendum but is a fundamental feature of my whole treatment. Thirdly, Mitchell's assertion stretches to un-

V. The rightful place of price economics.

We look in vain for evidence among contemporary American academic economists (with the exception of the few Laughlinites already indicated) of a definite adherence to the ideal of price economics. But in business circles and in the editorials of financial journals may be found many evidences of a full acceptance of Mitchell's view. From these quarters come frequent appeals to the authority of political economy (its "immutable" principles of free competition, the unchanging law of supply and demand), but always such appeals assume our political economy to be that of England in the Ricardian period, which, as Bagehot said, with approval, proceeded as if man were "animated only by motives of business." In appealing to this old ideal of economics on behalf of large business, in defense of wealth just as it is, and of all things as they are, the world of business ignores the fact which the Ricardian economists sometimes plainly saw, namely, that money is no true index of the underlying wealth, motives, and forces making for individual and collective welfare. In some connections the Ricardian economists recognized the superficiality of a merely commercial economics, probably in part because of their hostility to mercantilism and its exaggeration of the rôle of money, a hostility that was traditional from the days of Adam Smith.[46]

It would be far from the truth to say that all business men in

heard-of lengths that much abused phrase "mere terminology." That phrase is warranted in cases either where two different words are used for the same idea or where two ideas are expressed by the same word. If, as in this case, the difference is "merely terminological" when two different terms are used for two different ideas, then can a difference ever be anything but terminological? Professor Davenport lays down as basic the proposition that economics is coëxtensive with the price concept. With what contradiction he develops this thought and into what difficulties it leads him, I have tried to indicate in another place (*Journ. Pol. Econ.*, vol. XXII, p. 550). That is not our concern here, which is to fix the point that while Davenport's conception of the scope of economics limits it to price, mine makes it include also valuation and welfare. No casuistry can reduce these two to one.

[46] Mitchell suggests that the classical economists' suspicious attitude toward monetary economics was due to their hedonism; "nothing really counted in controlling behavior but pleasures and pains" (*op. cit.*, p. 142). But their crude psychology filled small space in their discussions, which were concerned mostly with commercial transactions, purchasing power, and the pecuniary calculus. See my preceding article, American Economic Review, vol. X, p. 478, sec. 2.

America today hold to the strict creed of commercial economics. Many of the greater industrial and financial leaders have of late in their utterances on questions of banking and railroad policy, labor relations, and other problems, implied to a notable degree an acceptance of public welfare as the ideal and aim of business. Great numbers of employers have come to feel that every industry, including their own, must be judged by its contribution to a better America, shown not merely in material production or in financial success but in the attractiveness of their own communities, in the homes and contented lives of their workmen, and in the effects upon the consumers. In very few cases is the belief of these employers to be classed as socialistic in any radical sense, though their views have been greatly socialized as compared with those of their predecessors. Many business men hold unconsciously, some avowedly, a creed of welfare economics in reference to most public questions, even though they may not always apply it in their own business.

The real economist needs surely to study and to know business conditions, needs for many purposes to be able to report and interpret the views as well as the facts of the business world. He ought, however, to give a broader and deeper interpretation of those views and facts than the business man needs to give for his individual ends or for corporate profits. He ought to comprehend the nature and relationships of price, as a problem of logic and philosophy, and trace much further the indirect workings of the price motives. And, above all, he must bear always in mind the larger purpose, must keep the larger outlook of a social scientist.

Price economics has its rightful and important place, though it is not at the center of economic interest in the larger and fuller sense, but near the periphery. At all times there are calling for the highest expert treatment, important problems that may be expressed in mathematical or in monetary terms, and that may be for a time studied separately, apart from the complexities of individual valuation and welfare considerations; such are monetary systems, problems of banking, trade statistics of many kinds, price history, price fluctuations, crises, statistical and abstractly limited studies of price relationships. Here Mitchell, Fisher, Kemmerer, Sprague, Laughlin, Willis, and others have achieved notable and valuable results. In times of great price changes such as the present, the rightful understanding of these questions is of

peculiarly great importance to general welfare; but always these questions should be studied by the economist with the ever present consciousness that he is not dealing with ultimate values in a real political economy but is only measuring certain distorted shadows of individual, or of commercial, economy. Even individual interests cannot safely be guided by a price economics; much less can community interests.

It is therefore vain to hope, as some do, that the conclusions of trained economists viewing the industrial world from a point apart should in respect to the larger problems of social progress be in accord with those of "the man in the street." By the very fact that one is a welfare economist one must see many things from a different angle and in a different perspective than does the business man as such. The super-simplified thinking of the price economics does not lead to valid welfare conclusions. In troublous times any welfare economist, by the very fact that he refuses to permit the pecuniary calculus to masquerade as social policy, may by the commercial world be pronounced ignorant and even dangerous. But it is a true economist's function to see things sanely and to see them whole, though this brings him to conclusions often out of accord with those of the market place and the counting house, where price economics usually has full sway.

In view of the facts we have reviewed, the truth seems to be that the more superficially commercial a problem is, the more fitting is a mere price explanation, but the more obscure the relations of human motives and needs, the more futile it becomes. Price economics applied to life does, as its champions claim, simplify economic thinking, but it does so by leaving out much (often all) that is of real importance to the individual life and to the social welfare. In view of the admitted difficulties must we not characterize price economics as a fool's paradise? Ought we to assume, just because it is "convenient" to do so, that money measures human motives on a large scale, when it does not? To do so merely gives an illusory appearance of finality and mathematical exactness, to conclusions without application to the greatest issues of human life.

The writer is regretfully conscious of the fact that the present article treating contemporary opinion on this subject stops far short of developing in due proportion all the topics suggested in the preceding article on the origin and history of price economics. Six different groups protesting against, or dissenting from, price

economics were there indicated. Five of these are not further described in this article: humanitarian reformers, secular moralists, Christian socialists, organized laborers, and radical communists. Yet all of these have their twentieth century successors; their sympathies and beliefs have penetrated and affected almost all elements of our citizenship. To describe these effects adequately would be to write the recent history of liberal thought in the field of industrial and social action. Such a treatise would transcend the limits of a magazine article. We have had to confine ourselves to the examination of contemporary opinion on price economics as found among the successors of the group last named in the foregoing article, the liberal, middle-class economists. At most we may hope to assist toward rightly interpreting opinion in this field and toward formulating the judgments of economists regarding the true center and proper function of political economy.

Our question has not been whether economics is a science or an art. Granted that it has its science aspect and its art aspect, the one having to do with explanation, the other with the application of ideas to practical affairs; the question is, in economics as a science what are we seeking to explain? In price economics as a goal, it is prices, exchanges, commercial statistics, and financial operations. In welfare economics it is the relation of men to their environment, social and physical, consisting of the objects of their choice, as affecting their sustenance, their happiness, and their welfare. The best in price economics, modestly interpreted, is but a small part of the means to the end found in welfare economics. Can there be any question as to which is the part of a real economics, and which is, and should be, the ideal of the little band of professionally trained economists in America today? If they and men of their kind and their training cannot succeed in guiding the energies, the aspirations, and the surplus material resources of our nation toward ends that meet the needs of human nature, civilization will fall between the commercial economists on the right, and the revolutionaries on the left, both groups, in their ways, alike inimical to constructive and humane welfare economics.

Frank A. Fetter.

Princeton University.

CIRCULATING CREDIT: ITS NATURE AND RELATION TO THE PUBLIC WELFARE

Despite the fact that bank notes or deposits are used in the daily business of hundreds of millions of people, there still remain numerous misconceptions concerning the nature of these media of exchange. Furthermore, it seems safe to assert that few indeed, not only of the users but also of the bankers who issue the obligations, have any clear idea of just what effects upon the public such issues produce. According to the writer's observation, textbooks on economics rarely touch upon this last and most important phase of the problem. It therefore appears to be worth while to discuss in some detail the fundamental principles connected with bank credit.

Bank credit is used mainly for business purposes. Some loans from banks are obtained in order to purchase consumption goods, but loans for this purpose form so small a fraction of the total that they scarcely need consideration here. The bulk of credit loaned, not only by banks, but by other lenders as well, is nowadays borrowed for purposes of investment or for use in undertakings for profit making.

The successful entrepreneur normally desires to expand his business in the hope of securing greater profits. Such expansion can be accomplished only through saving or borrowing, and either process involves sacrifice. Saving means that funds must be retained in the business which might be used to satisfy the direct wants of either the individual entrepreneur or the stockholder, as the case may be. Any form of borrowing is costly, and, in some enterprises, such charges use up a very considerable share of the receipts. The railroads, for example, commonly pay out more for bond interest and for the use of leased equipment than their stockholders receive as dividends. A problem normally important to the entrepreneur is, then, that of reducing rent or interest charges to a minimum. Could these be abolished, profits would be greatly enlarged.

Business concerns are also hampered by the fact that loans fall due and the principal must then be paid. Normally, it is not difficult simply to sell a new set of notes or bonds, paying off the old debt with the proceeds; but, if the debt falls due during a period of financial stringency, it may be necessary to pay higher interest rates on the new loan and, in some cases, it is almost impossible to secure an extension of credit at any price.

Governments are great borrowers. Like corporations and individuals, they have felt the burden of paying interest charges and the trouble of selling new bonds to obtain money with which to pay off old issues. The two inconveniences long ago led some skilful statesmen to devise a method of escaping them. That method was the issue of promises to pay on demand round sums in coin, promises commonly known as paper money.

At first thought, it would seem that, for its maker, a demand note would be more inconvenient than any other kind of obligation, since there would never be any certainty as to when it would have to be met. In practice, however, circumstances are very different. A demand note, if people in general believe it will be paid on demand, has the peculiar characteristic that it is considered just as good as coin itself, and few care to take the trouble to ask for its payment, to convert it into coin. For this reason, such notes are used freely for the purchase of goods or for the payment of debts. When the government gives its note to a citizen in exchange for goods, it borrows from him the agreed value placed upon the goods, promising, in return, to pay him coin whenever he desires it. Had it promised to pay him the coin at some future date, as by giving him a bond, he would have charged the government interest. But when he can obtain payment at any minute, he is willing to loan the value of his goods without interest, for he expects quickly to receive in exchange other goods which he desires more than he does the demand note. As a matter of fact, he does not collect the proceeds of the note from the government at all, but passes the note to a third party in exchange for goods. This third party is now loaning the money value of his goods to the government, although he probably has no expectation of collecting from the government but expects, in turn, to give his claim to someone else in exchange for commodities. Thus, the government note is always circulating but may remain unpaid for years at a time. Even if paid, it may be immediately reissued. The United States government has, for example, kept in circulation since Civil War days $346,681,016 of notes commonly known as greenbacks, having thus obtained without charge for half a century the use of property of this value. Had bonds been issued to the same amount, the interest charges would by this time have amounted to over $700,000,000.

True, there has been some expense connected with keeping these notes in circulation. It has been necessary to maintain a certain

gold reserve to meet any demands for payments; and it may incidentally be noted here that the maintenance of this reserve has reduced somewhat the total gold in circulation or available for other purposes. As the old notes wear out, new ones must be printed. Nevertheless, the total expense has been but a small fraction of the seven hundred millions saved in interest. Furthermore, the notes are floated with none of the trouble connected with the sale of bond issues. It is easy, then, to see why governmental fiscal authorities have been so prone to issue paper money upon almost any pretext.

It goes without saying that business men who have watched governments borrow in this delightfully easy and inexpensive manner have sought to devise ways and means of imitating the process. The prerequisite to success in this line is the securing of implicit confidence on the part of the people in general that the notes will really be paid on demand. Such confidence is best established by actually making such payments for a considerable period of time. For several centuries now the issuance of circulating notes has been an accepted function of a particular class of concerns, the banks. The United States government guards the safety of national bank notes so carefully that such notes, being printed on the conventional type of paper used for government notes, are accepted by the average American citizen without the least question, the recipient not even observing whether they are bank notes or government issues. Such unquestioning acceptance was, however, not formerly accorded to bank notes by the American people. In the early history of the nation when "wildcat" banks were plentiful, bank notes were carefully scrutinized and were valued highly only when bearing the name of a bank that had the reputation of paying promptly. It was only after state bank notes were taxed out of existence and the national government had virtually guaranteed the national bank notes, that bank notes became a generally accepted part of our monetary supply. Since bank notes can thus without question be used to obtain a loan free of any interest charge, bankers are naturally tempted to issue them in immense quantities. The restrictions placed by the federal government upon their issue are, however, so onerous that there is little profit to the bank issuing them. As a result, they form only a fraction of the total circulating credit issued by the banks of the country. The far commoner form of circulating credit is the simple bank deposit.

To the average citizen bank deposits seem entirely different from bank notes, but in fact they are very similar. Both are promises to pay money on demand. Both may be used either to pay debts or to make purchases. The bank notes circulate more freely and, under our laws, are more adequately secured. The deposits are not so easily stolen from their owner. Were the banks to issue to depositors certificates of deposit in various denominations, these certificates being non-interest-bearing and payable to the bearer on demand, the only difference between such certificates and bank notes would be the greater reserve which the United States law requires to be kept for the redemption of the latter. Such a difference is manifestly characteristic only of a particular time and place. In general, the differences between bank notes and deposits are very slight. In the United States, deposits are loaned just as freely as bank notes. Commodities may be purchased almost as readily with deposits as with bank notes. As a matter of fact, bank deposits are the principal circulating medium of the United States, nearly all important purchases being made through their use.

Since bank notes and a large proportion of bank deposits are not interest bearing, and since they may be readily exchanged for commodities, a business concern which could issue as many of these as it liked would solve the troublesome problem of reducing the constant expense connected with obtaining additional equipment. The notes and deposits of an ordinary firm do not, however, circulate freely. People associate the desired promptness of payment only with banks; hence, the concern intending to get a loan free of interest can best do so by organizing a bank. In the past, private banking has often been permitted. About all that has been necessary in some states has been the printing of a few letterheads, the painting of a sign, and the installation of a teller's window, to have a full fledged private bank. The immigrant banks in some of our great cities are examples of this type which have survived beyond their day. In such private banks, depositors turn over their money, are given deposit receipts, and the money is used in the business of the proprietor, a free loan thus being obtained. Checks on such a bank, however, are not likely to be accepted freely, hence the use of this ultra simple system has distinct limitations.

Modern banking laws have tended to abolish such types of private banks. In most states, at present, banking can be con-

ducted by duly authorized corporations only, and rigid inspection is the rule. As a result, the modern firm desiring to profit by the use of circulating credit must normally resort to devices less crude than the installation of private banks of the variety just mentioned; but this does not by any means indicate that they have eschewed banking as a method of obtaining free credit. Nowadays, the usual plan is to organize a subsidiary banking corporation designed primarily to furnish loans to the organizers. Farmers' banks, department store banks, and the great bank connected with the Standard Oil interests are all examples of this type. The entrepreneur gives his note to the bank in exchange for a deposit. He checks on the deposit to purchase the equipment desired. The interest which he pays to the bank comes back to him as dividends from the bank, since he is the owner. Practically, he has expanded his business without any real outlay for interest. He has, in a small way, imitated the achievements of the government in substituting circulating for ordinary credit and has thereby likewise obtained the use of valuable property at a cost far below the normal interest charge for a loan of equal value.

The majority of business men are either not wise enough or not so situated that they can employ this clever device of circulating credit to reduce their charges for loans. The utilization of this plan of getting something for nothing has, therefore, largely been taken over by a specialized class, the bankers. And banks, as a whole, do secure an enormous tribute from the public. The right to loan and reloan a million dollars for an endless period is practically equivalent to the ownership of a million dollars. True, such a right is not obtained free. The bank has heavy expense for personnel. Custom demands that it provide an elaborate building in which to transact its business. It must keep up legal or necessary reserves, and, in order to do this, it must ordinarily pay interest to certain persons who bring it cash or claims therefor to place on deposit. None of these charges is burdensome if the bank does a large business. The interest it pays for deposits is less of a drain than at first might be thought, for much cash is obtained from deposits on small checking accounts and these accounts usually draw no interest. Besides, one dollar of actual cash is an ample reserve upon which to base four to eight dollars of loans.

On the whole, however, banks probably are little more profitable than concerns of a different nature. This fact by no means

proves that they do not receive great quantities of income from the public for which they pay nothing directly. It only shows that such institutions multiply until the share of free income going to each is no longer more than sufficient to pay operating expenses and a reasonable profit.

This principle may be illustrated by a somewhat parallel case. Suppose the Treasury Department were to announce that, each day, one million dollars in gold would be tossed into the street from the balcony of the Treasury Building. To provide this gold would obviously be a drain upon the taxpayers of the nation. The recipients would evidently not earn it but would receive it as a free gift. But would this imply that picking up gold eagles around the Treasury Building would be a lucrative occupation? Far from it. Such vast crowds would gather that one's chance of getting a gold piece would become slight. He would need to be a strong man who could pick up enough gold in that way to pay his living expenses in Washington.

In an exactly similar fashion, the banks multiply, divide up custom, and frequently reduce interest rates until most of them receive only a small profit above operating expenses, though doubtless a few of the strong ones reap enormous rewards.

Even though banking may be no more profitable than other businesses, the fact still remains that banks receive their income from what virtually amounts to a public endowment. Few, however, would be hardy enough to assert that an efficient banking system is not an institution well worthy of such an endowment. We can scarcely imagine present-day trade and commerce without banks. The convenience which they furnish as places where money may be exchanged for any kind or denomination desired, where transfers of credit to other places may be arranged, where funds may be left for safe keeping, and where short-term loans may be readily negotiated, is felt by almost every one. Banks constitute one of the pillars of modern business.

While, however, banks with their system of deposits and circulating credit must be regarded as prime necessities, it by no means follows that the more banks and the more deposits the better for the public in general. It is not clear that fifty banks in the business district of a city always serve the public better than five. It is not necessarily true that a doubling of loans and deposits means a doubling, or, in fact, any increase whatever, of national prosperity. When the bank loans of the nation are increased by

a billion dollars, it is equivalent to saying that some one has virtually contributed to the banks a billion dollars, less collection charges. The *Statistical Abstract of the United States* shows that from 1913 to 1918 population increased 8 per cent. What happened to banking operations during the same period? From the same source, we learn that individual deposits in banks amounted to 17 billions in 1913 and 28 billions of dollars in 1918, an increase of 60 per cent. Loans increased in virtually the same proportion. The banks, then, were nominally richer at the end of this five-year period by some 11 billions of dollars. Who contributed this enormous fund? What was the effect upon the public?

If other things are unchanged, prices tend to vary in proportion to the quantity of circulating medium. Suppose that in the United States this should total 10 billions of dollars, including both money and deposits. Suppose also that the private debts of the country amounted to 100 billions of dollars. If, then, the banks expand their notes and deposits by one billion dollars, prices will rise 10 per cent. This rise will reduce the value of the obligations of debtors to creditors by 10 billions of dollars, the gain of the debtors being exactly equivalent to the loss of the debtors. Employers will delay a little while in increasing wages and a longer time in raising salaries. This delay will enable the employers to amass billions at the expense of the employees. Again, the gains of the employers exactly equal the losses of the employees. Owners of the 10 billions of dollars of money and bank deposits will find that their holdings have declined in purchasing power 10 per cent or one billion dollars; and this is the exact amount that the bank deposits increased. Evidently, then, every expansion of bank credit is at the expense of the owners of money or of bank deposits. A large share of the losses of the depositors in the bank will be offset by the gains of the borrowers from the bank. As the price level rises, they will need to sell a lessened quantity of goods in order to pay off their loans. As bank deposits are largely created through borrowing, the depositors and borrowers are very frequently the same persons, and the gains and losses will in their cases be cancelled. Owners of actual money and depositors who are not borrowers will, however, not have their losses offset in this manner. The diminution in their ability to buy goods will be real and not merely nominal.

The money gains of the banks through the increases in deposits

are largely offset by the decline in the purchasing power of money. Since, however, the bank deposits do not constitute the entire circulation of the country, and since the price level varies in proportion to the entire circulation and not to deposits only, it follows that, if the supply of actual money remains constant, a 10 per cent increase in deposits will produce an increase in the price level of something less than 10 per cent. Since the increase in deposits will consist primarily not of more accounts but simply of more dollars per account, clerical expenses will increase but slightly and the banks will make a real as well as a nominal gain from the policy of inflation; but, in a country like the United States where bank deposits constitute the bulk of the circulating medium, the real gain will be only a fraction of the increase in deposits as measured in dollars of current value. The fact remains, however, that any policy which makes deposits in general multiply redounds to the advantage of the banks but diminishes the value of the credits of those depositors who are not borrowers but who have placed in the bank actual money or claims therefor.

Such is the broad view of the situation. Individual banks may either gain or lose during a period of deposit expansion. If interest rates remain constant, any bank that fails to increase its loans as rapidly as the price level rises undergoes a net loss, while any bank that increases the amount loaned at a rate more rapid than the rise of prices in general increases its profits as measured in purchasing power. If the money supply remains constant, the price rise will not keep pace with the deposit expansion, hence the banking business as a whole will, as a rule, profit by an inflation of circulating profit.

It is the boast of the founders of the federal reserve system that it has made our dollars more efficient; in other words, that each dollar now does more money work than formerly. Of this fact there can be little doubt. According to the *Statistical Abstract of the United States* the ratio of cash to net deposits in the national banks declined from 12.7 in 1913 to 3.5 in 1918, and the per cent of reserves to deposits diminished from 24.29 in 1916 to 10.65 in 1918. These figures appear thoroughly to support the claim just mentioned. Most economists seem to have accepted without protest the view that an increase in dollar efficiency is a good thing for every one. At one time, also, no one doubted that the earth was flat; but when the facts were studied, the belief was found to be entirely without foundation. What is the effect

of an increase in dollar efficiency? The matter may be worthy of investigation.

The Bureau of Labor index of wholesale prices increased from 97 in December, 1914, to about 247 in March, 1919, a rise of 150 points. Retail prices have increased to a somewhat less extent on account of the delay of rents and a few other customary prices in responding fully to the new monetary conditions. A moderate estimate would be to assume that dollars, since 1914, have lost 55 per cent of their purchasing power at that date. The debts owed by individuals and corporations to others than banks amounted in 1914 to not less than 30 billions of dollars. The effect of the currency inflation, which has consisted principally of increase in dollar efficiency, has been to confiscate some 16 billions of dollars' worth of the property of the creditors (at 1914 prices), and turn it over to the debtors as a gift. Sundry other billions have been transferred from the payrolls to the bank accounts of employers; and the owners in 1914 of the 22 billions of bank deposits and money have found their ability to buy goods reduced by over one half, or by about 12 billions, but this loss is partly cancelled by the gains of the borrowing depositors. A moderate estimate, however, of the value of the property which has thus been transferred without any value given in return is 25 billions of dollars at the 1914 price level or 60 billions at the price level of 1920. The transfer has been based on a policy neither more nor less fair and equitable than would be the seizure of the property of all blue-eyed persons and its immediate conveyance to those inhabitants possessing brown eyes, or the robbery of the persons whose names begin with the last half of the alphabet for the benefit of those whose initials chance to be in the A to M class.

The Federal Reserve act was enacted chiefly as a safeguard against panics. Even its ardent supporters hardly contend that it will entirely prevent the periodical readjustments in business known as depressions. They do, however, insist that it renders a money panic practically impossible. But, granting that this contention is correct, it by no means follows that the new system is to be commended. The principal evil of a money panic is that it unjustly transfers much wealth from one person to another. It is, however, highly improbable that all the panics in the history of the nation have together caused the unwarranted transfer of more than a small fraction of the 60 billions of dollars' worth of

goods the ownership of which has been arbitrarily shifted by the workings of the Federal Reserve act and its amendments. It is idle to contend that such inflation is a product of war conditions, for the inflation goes on apace with industry back in its normal grooves, and there is a strong possibility that the expansion of circulating credit may even proceed very much further with a continuation and extension of the injustice already experienced. The fact seems to be that through failure to appreciate the possibilities of credit expansion which lurked therein and the damage that might be wrought in that way, the authors of the Federal Reserve act and its amendments completely failed to safeguard the public against the crying evils of an entirely unnecessary orgy of inflation and that the effects of this oversight have proved little short of disastrous to millions of Americans.

The chief present limit upon the loaning capacity of member banks lies in the fact that would-be borrowers must back their demands by drawing upon the available supply of sound security—a supply which has rather definite bounds. The law, as it stands, places no restrictions upon the expansion of the circulating medium except more or less optional requirements that certain reserves are to be kept against note issues and deposits. Practically, the monetary fate of the country rests with the Federal Reserve Board, a body which thus far has been entirely unable to resist the pleas of bankers and entrepreneurs for "easy money." The system, as established, has proved to be merely a new model producing results very similar to those yielded by its numerous predecessors of the past—the cheap money devices which have so often dominated the financial policies of nations and always with most untoward results. Had Congress wisely refrained from reducing the legal reserve requirements of member banks, had it required an absolute reserve against deposits of 100 per cent instead of a tentative reserve of 35 per cent, and had it fixed a minimum rediscount rate of say 12 per cent, the currency would have been made genuinely elastic instead of merely expansible, and the nation would have been spared the long train of ills necessarily attendant upon an inflation policy. While it will be impossible to repair most of the damage already wrought, steps should at least be taken to transform the federal reserve system from its present status as a mechanism for inflation into that beneficent regulator of credit which its originators sought to establish, thus preventing in the future an extension or repetition

of the policy which has upset the whole financial structure of the nation and has changed property rights from realities into phantoms.

When one considers the furore created when burglars now and then succeed in appropriating the contents of a single safe, it seems strange that the legal filching of a sum amounting to thousands of dollars from each of millions of families has been accomplished with relatively little protest against the inflation process. This is partly explicable because many of the influential people are both debtors and creditors and have gained on one account what they have lost on the other. More important still, though, is the fact that most people are so accustomed to thinking in terms of dollars that they absolutely fail to comprehend what has really happened. They complain bitterly enough about the higher prices of the things they buy, but ascribe the rise to every imaginable cause except the real one. They absolutely fail, also, to realize that their holdings of bonds and insurance policies, issued by companies that are still sound and still promise payment of the same number of dollars, have really depreciated over one half in value. Since, for this class, ignorance is bliss, it is perhaps well that comprehension is not thrust upon them.

It is, however, important that thinking people, and especially our statesmen and legislators, should be made to realize that every measure which increases the efficiency of the dollar or, in other words, inflates bank deposits, at the same time levies a heavy tax upon all creditors for the benefit of the debtors, upon all salaried men for the benefit of their employers, and upon all owners of money or bank deposits for the benefit of the bankers and the borrowers from the banks. Any decision to establish new banking systems, to diminish legal reserves, or to adopt other measures which will have the effect of increasing deposits faster than the physical growth of business, should be made with eyes wide open as to the consequences involved.

For many years, we have been troubled by the effects of inflation. In the near future, deflation is likely to be the rule and its effects will loom large in the public eye. They are exactly the opposite of the effects of inflation. Deflation will take from the debtors and give to the creditors; take from the bankers and borrowers from banks and give to the depositors in banks; take from the employers and give to their salaried employees. Unfortunately, however, deflation will not mean equitable restoration. The

creditors of tomorrow who gain will not be the creditors of yesterday who lost. The depositors whose deposits increase in value will not be the ones whose deposits shrunk during the period of inflation. Were prices to return to the 1914 level, some would find their losses just made good; others would gain more than they lost or lose more than they gained; still others would have lost both during the rise and during the fall of prices; while a few would have gained by both changes. It is safe to say that those who obtained complete reparation and nothing more would constitute only a small minority of the whole. Both inflation and deflation are unjust to the extreme and neither will ever undo more than a fraction of the evil wrought by the other. It is, then, not surprising that increases or decreases in the volume of circulating credit, with their consequent changes in the price level and shifting of wealth between various classes of the population, have some very baneful effects upon the morale and habits of the people. The fact has long been remarked that unstable government tends to reduce the citizenry to poverty because it is worse than useless to save when savings merely make one a shining mark for banditti. The rapacious tax-farming systems of oriental despotisms which result in accumulated property being quickly seized by the tax-gatherers have produced similar effects. In those mining regions where fortunes are largely made through chance, the men are notoriously thriftless. Similarly, when an inflation policy ruthlessly confiscates from the most conservative classes half of their savings, for example such claim as bonds, savings bank deposits, and insurance policies (representing often the accumulations of a lifetime) and turns these savings into the coffers of men who have in no way merited the gain, who may, in fact, be merely lucky speculators, one cannot well expect those who suffer the loss or who witness the spectacle to continue much longer to be vigorous advocates of thrift. The salaried employee who not only sees his advancement, won by years of steady effort, nullified, but his income in purchasing power actually reduced below what it was when he was a novice in the work, can scarcely be expected to teach his children the advantages of persistent industry. The more ignorant worker who finds the dollars of his wage shrinking day by day through forces beyond his comprehension cannot be blamed too severely if he turns bolshevik.

Such an unreasoning system of looting from one class to enrich another can only idealize the devotees of the god of chance. Logic will apparently advise every ambitious youth to follow in the path

of the lucky speculator rather than either to waste his time in arduous toil or to sacrifice present pleasures in the fatuous hope of accumulating a future competence. And, under such conditions, who can hope for opposing advice to prevail?

It is a commonly taught principle of economics that gambling is anti-social not only because it tends to discredit industry as a method of making a living but because the dollars gained in gambling have less utility than the dollars lost. "Come easy, go easy" is a proverb verified by the experience or observation of almost every one. It is, then, a certainty that, in very many cases, the chance gains thrown into the laps of debtors and entrepreneurs by an inflation policy over which they have no control will yield to them less of real service than will the dollars earned by honest toil or exceptional skill in the game of business.

Any system which divorces reward from effort and which heightens greatly the chance factors in the field of business and investment is certain ultimately to lessen production and to increase discontent. The contraction period lasting from 1873 to 1897 created great unrest among the farmers of the Mississippi Valley. The inflation of the currency and bank deposits continuing since 1914 has done much to drive laborers to look to radical and even revolutionary measures for relief. Increasing dollar efficiency has too often resulted in greatly diminished human efficiency. The need for a stable dollar can scarcely be overemphasized, and this stability can be more easily attained if measures are taken to make the rate of increase of deposit currency correspond roughly to the growth in the physical volume of business.

It has been shown that a system of circulating credit may work great changes in the price level and affect materially the well-being of most of the people of a nation. Does it also play any important part in determining the interest rate?

One school of economists would contend that any effect of forces of this type must be purely transitory—that any permanent effect must result only from forces influencing the psychology of the people of the nation. Another school would lay emphasis wholly upon the supply of and demand for certain types of goods. But here is a system purely financial in its nature. Can it make interest rates permanently higher or lower than they would otherwise be?

As a matter of fact, *the* interest rate is a myth. Each specific kind of loan has its own interest rate, and many such interest rates often exist side by side at the same time. They do influence

each other to some extent because one may be substituted for the other. The relationship, for example, of the market rate for time loans to that for call loans is exactly the same as that of the price of corn to the price of oats; each acts upon the other, and yet each is largely independent of the other.

Every interest rate is determined in its own loan market by the interaction of the subjective valuations of would-be lenders with the subjective valuations of prospective borrowers. Given the demand and supply of each individual on the market, the market rate may be determined by the usual simple process of ascertaining at what rate supply and demand are equal. In certain loan markets, the supply of loanable funds is little affected by the offerings of banks; in others, practically all loans are secured from banks; while, in still others, bank credit and private funds are both important sources of supply.

Students of interest rates have frequently appeared to assume that the demand for loans is equivalent to a desire plus a willingness to promise repayment. In the business world this is far from being the case, for the first question asked of the would-be borrower is, "What security can you furnish?" This need of security limits sharply the demand in most markets.

Let us consider the case of a market in which the bank is now the leading source of credit—namely, the market for call loans in New York City. Let us assume that banks had not entered this field and that the entire supply of such loans was furnished by individuals. Under normal circumstances, the rate would need to be enough higher than that for long-time loans to pay for the constant trouble of renewals. The rate for long-time loans would, of course, need to be high enough to induce saving, in other words, to overbalance the general preference for present rather than for future goods. If the normal rate for safe mortgages were 5 per cent, no one would expect the call rate to be less than that figure; in fact one would be surprised if it remained below 7 or 8 per cent. But what is the actual state of affairs? Numerous banks appear on the scene. New York has long been a central reserve city. Idle cash flows in readily from banks all over the country and bank reserves can, therefore, be maintained at a low cost. Banking is conducted on a large scale which reduces the clerical expense per dollar of business. The dislike of individuals for waiting appears to play but a most minor part in the supply of funds for call loans. As a result, these loans are often, for a period of several months, quoted at 2 or 3 per cent; while, at

the same time, three to six months notes or the highest grades of bonds may be yielding nearly double that interest rate. Both abstract reasoning and the observed facts seem to indicate clearly that, in this field, the supply of circulating credit does greatly lower the market rate below what it would be were no circulating credit in existence.

The great influence of circulating credit upon the call market is due to two facts: first, while practically nothing but readily marketable stocks and bonds will be accepted as security for such loans, the supply of such stocks and bonds available to secure loans is definitely limited; second, the large supply of cash flowing to New York for reserves has enabled the banks to issue circulating credit in tremendous amounts. In a loan market, therefore, in which the potential supply is enormous and the potential demand is strictly limited, it is not surprising that the rate is frequently low.

It is easy to conceive of a condition in the market for any other type of loans under which circulating credit might play the dominant rôle. Whenever the restrictions upon borrowing are made severe enough so that the banking capacity is more than ample to supply the entire actual demand, while the loans desired are of the type suitable for banks to handle, the bank rate may fall materially below the rate at which loans could be secured elsewhere. There seems every reason to believe that, in such instances, the lower limit of the bank interest rate is often determined primarily by the cost of banking and only to a slight degree by the rate at which individuals are willing to save.

If banks are to issue circulating credit successfully, they must maintain adequate reserves. These largely consist of the deposits of cash by individuals. Part of this cash is held for convenience as a basis of checking accounts. The smaller deposits of this type usually draw no interest. Banks do, however, normally pay interest on most time deposits, and such deposits are thereby withdrawn from the field of private loans, lessening to that extent the supply of private loans offered on the market. However, every dollar of money so held enables the bank to offer credit to the extent of six or eight dollars. Circulating credit, therefore, multiplies private credit many fold. The 4 per cent currently paid for deposits dwindles, therefore, to a cost to the bank of considerably less than 1 per cent on the deposits which it loans out. The expense of maintaining reserves forms, then, but a fraction of the bank's general operating costs. It is only through

its influence upon this small item that individual time preference affects in any way the supply price of funds available for bank loans.

When the effective demand for loans of any type expands beyond the supplying capacity of the banks, then the supply curve is derived from a combination of bank costs of operation and the subjective rates of individuals, the latter being affected by such psychic phenomena as optimism or pessimism concerning business opportunities, personal future prospects, dislike for waiting, etc. The larger the effective demand in proportion to banking capacity, the more will the subjective loaning rates of individuals come to dominate the market. If banks raise their rates very high, saving on the part of individuals will increase rapidly. This actual or potential competition on the part of individuals sets an effective upper limit to the rates which banks may charge for the use of circulating credit.

The expansion of circulating credit has been shown to be one of the chief forces controlling the price level. Every expansion of loaning power naturally tends to reduce the interest rate. However, when bank deposits come to be the chief medium of exchange, the price level rises almost as rapidly as does the increase in the volume of deposits. As the price level goes up, the borrower must proportionately increase the sum which he needs to borrow. Thus, the demand for loans tends to rise also. It appears, therefore, that if, in any nation, bank deposits constitute a small share of the circulating medium, an increase in the loaning capacity of banks will tend to lower interest rates materially; while, in a nation in which bank deposits constitute the bulk of the medium of exchange, an increase in the loaning capacity of banks means only a slight decline in the rates of interest on bank loans. The United States evidently falls in the last-mentioned class of nations. In this country, therefore, while inflation of circulating credit causes enormous gains to those under contract to pay definite sums of money and causes equal losses to the holders of such obligations, it appears that, after the inflation has made its effect felt on the price level, those persons then wishing to borrow will find interest rates lowered only slightly by the inflation process.

The statements just made apply to a deposit inflation affecting generally the banking system of the nation. It is evident that, in any limited field, the establishment of new banks or the reduction of the legal requirements for reserves might easily enable the banks to treble their loaning capacity. Multiplying this limited

class of loans by three would not, however, affect in any noticeable degree the price level of the nation, but, unless the increase in loaning capacity should be accompanied by a correspondingly increased demand for loans, a great reduction in interest rates would, of course, be the outcome. If, for any reason, the effective demand for loans should happen to keep pace with the expansion of loaning power, thus maintaining interest rates, the extra interest received would represent real profits to the bank; for, since the price level would remain practically unchanged, each dollar of profit would have approximately the same purchasing power as it did before the expansion of loans took place. The interests of an individual bank are, therefore, most furthered by expansion of its own loaning power while that of banks in general remains stationary, rather than by a widespread inflation of banking credit. However, if such a universal expansion is taking place, it behooves each bank to increase its loans proportionately, or else the declining purchasing power of the dollar will cause its real profits to diminish. Such has been the position of the banks of this country ever since the passage of the Federal Reserve act with its provisions making possible the inflation of circulating credit.

The conclusions of this study may be summarized as follows:

1. Circulating credit is a device successfully used for obtaining a loan without the necessity of paying interest therefor. This is the source of banking profits.

2. The principal limiting factor in the market supply of loans of circulating credit is not the time preference of individuals but rather the cost of banking. Individual time preference affects only the expense of maintaining reserves which is a relatively small part of the bank's running expenses.

3. The reduction in the legal reserve requirements of banks, resulting in increased dollar efficiency, has been largely responsible for the unjust transfer from creditors to debtors and from wage-earners to entrepreneurs of some 60 billions of dollars on the basis of the 1920 price level. This has been a leading cause of the recent social unrest, and has produced results much more serious than those occasioned by a panic.

4. Bank reserves and deposits as well as the supply of actual money are in grave need of stabilization.

5. The recent expansion of circulating credit has not resulted in any permanent marked lowering of interest rates on bank loans.

WILLFORD I. KING.

THE BUTTE MINERS AND THE RUSTLING CARD

The city of Butte is the site of one of the world's largest copper mining camps and the heart of the great copper industry of Montana. The heaviest copper producer in the Butte district is the Anaconda Copper Mining Company. The Anaconda properties for years produced one third of the copper output of the United States and one sixth of the world's production. It now hoists from its twenty-odd shafts more than 10 per cent of the world's annual output of copper. In 1918, when the Butte mines were being worked very close to capacity, the Anaconda Company employed 12,000 of the 16,000 mine workers in the district. By the early summer of 1919, however, mining operations had been cut to less than 50 per cent of capacity. The number of men employed by the Anaconda Company remained, nevertheless, at about 75 per cent of the total mine-working population of the district, this company employing probably ten times as many men as any other one company.

In 1912 the Anaconda Company instituted a so-called employment system, the significant feature of which was a leave-to-look-for-work permit called the "rustling card." With one or two important but incidental modifications this system continues in operation at the present time. The machinery for its operation is contained in the company's employment department.[1] The office of this department is popularly referred to as "the rustling card office" or "the rustling office." The function of the employment department is (1) to issue official permits ("rustling cards") to job-seekers who wish to "rustle the mines" (including the mines of certain other companies in the Butte district as well as those of the Anaconda Company) and (2) to keep certain records of the men to whom such permits are issued.

This rustling card system has produced varying reactions among the different labor groups in the Butte district. From some it has elicited passionate protest and emphatic demands for its abolition; from others merely mild disapproval; from still others passive acquiesence, apparent approval. From the beginning it appears to have been looked upon with suspicion and distrust by the rank and file of the miners. Finally, at the end of a long strike in the summer and fall of 1917 the rustling card system

[1] Since these lines were written this machinery has been transferred to the Butte Mutual Labor Bureau. See note at end of this paper.

was made the subject of a formal protest to the Honorable W. B. Wilson, Secretary of Labor, by the Metal Mine Workers' Union, now called the Metal Mine Workers' Union of America. As a result of this protest the Department of Labor has made an investigation of labor conditions in the copper mining industry in the Butte district, with special reference to the rustling card system. The present article summarizes the salient features of the report of this investigation, particularly those sections of it dealing with the rustling card, the local labor organizations, and their attitude toward the card.

Labor organization in the Butte district.

Within the past quarter of a century a significant transformation has taken place in industrial conditions at Butte. Formerly a single powerful body of organized mine workers, The Butte Miners' Union of the Western Federation of Miners, had to deal with a number of separate, unaffiliated, and relatively small mine-owning companies. Now several weak and discordant unions and a large group of entirely unorganized miners find themselves face to face with mine-owning interests which have become almost literally one-mine-owning interest—The Anaconda Copper Mining Company. While the employers have been organizing, the employees have been disorganizing.

Mining activities on an appreciable scale in the Butte district began in 1878. In that year was organized the Butte Miners' Union, which was incorporated in 1881 as the Butte Miners' Union, Incorporated. This organization continued as an independent body until 1893 when it became a part of the newly launched Western Federation of Miners. The Butte Miners' Union was the strongest and most prosperous of the locals which united to form the Western Federation of Miners, and from first to last was not only its most important source of financial strength but also its chief reliance in strikes or other labor troubles in other parts of its jurisdiction. While the mine operators were centralizing their interests, the mine workers moved for a time in the same direction, developing a compact and powerful union which until 1914 kept the Butte mines on a closed-shop basis. It is important to note that until 1914 there was only one union of mine workers in Butte and that that union carried on its books practically all of those working in and around the mines of the district, including surfacemen and mill and smeltermen as well as

miners proper. However, there has always been a large number of craftsmen (carpenters, machinists, electricians, etc.) working on the surface in connection with the mines, and belonging to their respective craft unions, affiliated with the American Federation of Labor, but not connected with the Western Federation of Miners.

When in December, 1912, the Anaconda Copper Mining Company established its rustling card office, the Butte Miners' Union immediately protested. The committee appointed to investigate the new plan reported its disapproval of the scheme, but recommended that nothing be done about it at that time. A minority report presented at the same meeting demanded an active campaign against the rustling card and about this same time the members of the union demanded and took a referendum vote on the subject. The books of the union were destroyed when its hall was blown up in 1914 and personal testimony as to the result of the referendum is so conflicting that it is uncertain whether or not the membership endorsed the majority report of the committee.

In June, 1914, the hall of the Butte Miners' Union was dynamited. It is not likely that the responsibility for this disaster will ever be definitely fixed The mine operators place the blame on the shoulders of the agitators and malcontents in the union. The members of the radical unions in the Butte district generally explain it as an act of the mine operators perpetrated in order to discredit the union and if possible disrupt it and so bring about an open-shop camp. This act following a series of disputes and disturbances had the immediate effect of changing Butte from a closed-shop union town to an open-shop non-union town. From the fall of 1914 until June, 1917, there was no miners' organization in the Butte district. The union men belonging to the craft internationals were a very small minority of the total number of mine workers. For a few months following the dynamiting of the union hall there was in existence a new organization independent of any other and known as the Butte Mine Workers' Union, commonly referred to now among the miners as "Muckie McDonald's Union." This organization had been launched a few days before the dynamiting of the union hall by an insurgent group of radicals which had been carrying on a campaign against their own alleged reactionary officers and against the whole administration of the Western Federation of Miners. It is claimed by a sympathizer that this union enrolled over 8,000 members within two months of its inception, but that it was crushed out of existence

in the fall of 1914 by martial law and state militia government in the district.[2] At any rate it expired in a few months.

The Anaconda Company appears to have waged an active campaign against this short-lived labor organization and made a special point in its indictment by branding it an I. W. W. union. This was emphatically denied by its members, and Mr. Tompkins asserts that at that time there were not over 75 I. W. W.'s in the whole city of Butte.[3] This statement corresponds with the testimony of Dan Shovlin, a member of the union referred to, who stated to the United States Commission on Industrial Relations that of approximately 5400 members of the Butte Mine Workers' Union but a very small per cent were members of the I. W. W.[4] The Industrial Workers of the World entered the Butte field with one of its propaganda leagues at about the time Muckie McDonald's Union was organized or possibly some months earlier. This propaganda league became in 1917 the "Metal Mine Workers' Industrial Union No. 800, I. W. W." It had in 1917 a membership of about 1200. Its membership now appears to be less than half that number.

Shortly before the disappearance of the Butte Mine Workers' Union from the field, in October, 1914, an open-shop ultimatum, so-called, was issued by the Anaconda Copper Mining Company. From that time until June, 1917, the camp remained non-union. It might still be non-union, had it not been for the fire of June 8, 1917, in the Speculator mine, operated by the North Butte Mining Company. This was one of the most terrible mine disasters in mining history. In this fire about 140 men were smothered or burned to death and the workings of the Speculator mine completely gutted and the mine put out of operation for months. The miners spontaneously stayed away from work during the days immediately following the disaster and on the twelfth, four days after the fire, the mine workers held a mass meeting and organized a union which they named the Metal Mine Workers' Union.

It is impossible to speak with certainty as to the number of men enrolled in this union, but the organization claims to have entered on its books about 10,000 names, a great majority of the mine workers in the district. Many of these undoubtedly failed

[2] George R. Tompkins: *Truth about Butte. A Little History for Thoughtful People*, p. 23.

[3] *Idem*, p. 21.

[4] *U. S. Commission on Industrial Relations, Hearings*, vol. IV, p. 3,776.

to pay dues and could not be considered active members. It would appear from the statements in the *Joint Strike Bulletin* that they had in July not less than 5,000 members; and in February, 1918, their secretary made affidavit that there were 4,833 names on the books, of whom 2,358 or less than half were paying dues. At present their paid-up membership is probably less than 800.

As already intimated, the dynamite catastrophe of June, 1914, broke the backbone of the Western Federation. During the open-shop interval in Butte the Western Federation was transformed into or supplanted by the International Union of Mine, Mill & Smelter Workers, affiliated as an international with the American Federation of Labor. This new international was without any representation in Butte worthy of the name until June. 1917, and although it has since then maintained a local there, its membership has continued small. The secretary of the State Federation of Labor reported that it had a membership in February, 1918, of 600. Its present membership is probably about 250.

Soon after the Metal Mine Workers' Union was organized, negotiations were begun in regard to its affiliation with the local of the revamped Western Federation of Miners—the International Union of Mine, Mill & Smelter Workers. While the Metal Mine Workers were not enthusiastic, the affiliation would probably have been accomplished but for the imposition of an unreasonable condition to that affiliation. "All arrangements were completed and everything pointed to affiliation," state the Metal Mine Workers, "when like lightning out of a blue sky came the announcement from the A. F. of L. that in case we did affiliate, we must do so as individuals and that we must go back to work immediately."[5] It is to be remembered that the Metal Mine Workers' Union came into existence as a result of the Speculator fire, that it came into existence during a strike which was still on and that its members had taken action against affiliation with any national organization until the strike was settled. The demands of the miners included a clause insisting upon more thorough mine inspection and fire protection and more adequate safety provisions in not only the ill-fated Speculator but all the other mines in the district. The other demands of the miners in this strike were for an increase in wages to $6 for an eight-hour day and above all for the absolute abolition of the rustling card system.

Although it failed on the whole, the pressure of this strike and the united demands of the Metal Mine Workers and the Electri-

[5] *Miners and Electrical Workers Joint Strike Bulletin*, July 12, 1917.

cians' Unions caused the Anaconda Company to introduce a modification in the rustling card system which obviated the necessity of an applicant's waiting for the return of the reference letters before being allowed to "rustle." This modifying order also made it possible for the job-seeker to use the same card on successive jobs instead of being required to go back to the rustling card office between successive jobs. This modification is explained more fully in the following pages.

The present situation.

At the present time, then, there are four separate labor organizations, each one of which claims jurisdiction over the underground workers—mine workers proper—of the Butte district. The craft internationals (carpenters, engineers, etc.) maintain their own organizations apart from the strictly miners' organizations. The four strictly miners' unions are: The Metal Mine Workers' Union of America; The Metal Mine Workers' Industrial Union, No. 800, I. W. W.; The International Union of Mine, Mill & Smelter Workers (A. F. of L.); and The Butte Miners' Union, Inc. The organizations are listed in the order of membership strength, as nearly as that could be approximated. Of the 4,500 to 5,000 underground workers employed in the mines in June, 1919, probably not more than 1,500 are organized at all, and these 1,500 are scattered among four organizations—or three if we omit the Butte Miners' Union, Incorporated, which appears to have only a handful of members. The surface workers are pretty solidly organized, principally in the various craft or trade internationals.[6]

Two of the miners' unions are essentially conservative unions and two of them are distinctly radical unions. The two conservative unions are Butte Miners' Union, Incorporated, and the International Union of Mine, Mill & Smelter Workers. The Butte Miners' Union, Incorporated, is not affiliated with any international or national organization and probably has no more than 15 or 20 paid-up members at the present time. It claims to be the genuine, original Butte Miners' Union No. 1 and disputes the claim made by the other conservative union, the International Union of Mine, Mill & Smelter Workers, to that honor. The two

[6] A beginning was made in the organization of the unskilled surface workers at the time of the February, 1919, strike, when the Mill, Smelter & Surface Workers' Union was organized. It is affiliated with the Metal Mine Workers' Union of America. Its membership in June, 1919, was reported as 82.

radical unions, the Metal Mine Workers' Union of America and the Metal Mine Workers' Industrial Union No. 800, I. W. W. are stronger numerically than the two conservative unions, but despite their similarity of belief and tactics they are not affiliated and there is no official connection between them although a number of miners belong to both unions.

As has been already intimated, the rustling card system is not a complete employment system. It is not a system of hiring and firing at all, for, notwithstanding its name, the employment department neither employs nor discharges men. The mine superintendents or shift foremen at the different mines do the hiring and discharging and no job-seeker may apply to these foremen unless he has first secured a rustling card. The rustling card office, or the employment department, as the company officially designate it, does two things: it issues work permits to all applicants not considered undesirable; and it keeps a record of all the men to whom such permits are issued. The procedure in securing a permit or rustling card is as follows. The applicant goes to the rustling card office. He is first handed the following application form which he fills out, with the exception of the signature at the bottom:

No...............

APPLICATION FOR EMPLOYMENT
with the
ANACONDA COPPER MINING COMPANY
Butte, Montana

Name of applicant..........................
Age......... Birthplace....................
If foreign born are you a citizen of the United States ....
Trade or occupation..........................
Were you ever in the employ of this company ....
If so, at what mine or in what department were you last employed...........................
State date of leaving last employment...........
Can you read and write English................
Married or single...........................
If married, where does your family reside.......

Dated....................... 191........

....
Signature of Applicant

Witness ....

He then presents the application to one of the clerks who verifies the statements as to previous employment with the Anaconda Company by referring to the lists of all former employees, and writes on the back of the "application for employment" form the applicant's answers to a number of additional questions. The applicant is then required to sign the application form. These additional questions, which aim to bring out fairly complete information as to how the man has spent the preceding two years, are about as follows:

> Where and in what capacities have you worked during the past two years?
> What was the name of the boss at each place?
> Give the date of beginning and ending work at each job.
> Give the address of all employers for whom you worked during this period.

If the applicant's statement is apparently correct and if he is not listed as one whose services are not desired by the company, he is given a rustling card which has been filled in by the issuing clerk and is then presented to the applicant for his signature on the back. The card now in use is reproduced below:

(face of card)

F.1408—9-15-16—20M

ANACONDA COPPER MINING COMPANY

Butte, Montana

Application No. ....

Name ....

Date of Issuance.........................191

ANACONDA COPPER MINING CO.

By....................

(back of card)

....

Signature of Employee

After the applicant has signed, the clerk enters his name in the list of card-holders and the card is handed to him on his way out of the office. He is now at liberty to apply for work at any of the Anaconda Company's mines and at the mines of certain other operators who require the Anaconda card as a minimum prerequisite for work in their mines. Without this card no applicant is given a hearing by the hiring official at any of the mines of these companies. The card so far has been issued to him, however, only provisionally. If those whose names he has given as references,

to whom letters are immediately sent, should reply that he has not correctly reported his past record or that he is not qualified for the work, his card is taken up. If these replies are favorable he holds the card permanently or until it is withdrawn.

The procedure outlined above holds good for the most part for the operation of the employment department ever since it was started in 1912. However, between 1912 and July, 1917, it was handled on slightly different lines in regard to the use of references and the number of cards customarily issued to each applicant. Before 1917 the practice was to defer issuance of the card until replies to the reference questionnaires had been received, thus keeping the job-seeker waiting two or three weeks for the card and the chance to rustle on the hill. Now, those who are given cards receive them immediately and if the reference returns are unsatisfactory the card is taken up later. The early procedure with respect to the number of cards issued each applicant was as follows: The applicant was issued a card. He then rustled the mines. When he was taken on at some particular mine, his card was left with the timekeeper and by the official returned to the rustling card office. As long as he continued working in that mine no further permit was necessary, but if he quit work there and wanted work in another mine, he was obliged to go to the rustling card office and secure another card, which he could always get unless the company considered that he had done something which would make him an undesirable employee. As the system is now operated, the man deposits his card with the timekeeper who keeps it on file and returns it to him when he leaves, except in those cases where the card may be taken up for cause; so that one card now serves a man indefinitely. This does not mean that the possession of a card entitles him to a job. It entitles him only to *ask* for a job. His chances of getting a job rest with the foreman, the foreman's need of men, the foreman's estimate of the man's ability, desirability, etc.

Perhaps the most striking feature of this so-called employment system is its simplicity. The application form contains very few questions and in comparison with the application forms required by a great many companies, such as telephone companies, and the forms required to be filled out by the United States government, it seems almost inadequate. The issue is not in regard to its form but rather in its application to individual cases.

Reasons for establishing the rustling card system.

The following statement of the objects which the Anaconda Company had in view in installing this system was made by an official of the company in a speech at Missoula, Montana, before the chamber of commerce on August 29, 1917. He declared:

It is not alone the right but the duty of every large employer of labor to use a proper discrimination in selecting his employees, to the end that men criminal in character, dangerous to their fellow-workers and to the industry, be not brought into and kept in the community. To most of you the thought will occur that the employer has the absolute right to employ whomsoever he pleases and may discharge or refuse to employ a man for any whim that he may desire to indulge in, but I do not claim the right to this extent to the large employer, upon whose operations the residents of a community may largely or substantially depend...........(moreover) no employer can exercise a proper discrimination in regard to his employees unless he knows at least in a general way who these employees are. The employment or rustling card system of the Anaconda Company is simply a system of identification, and the only fair criticism of it is that it does not go far enough.[7]

In the same speech this official said that "it became apparent to the officials of the Anaconda Company that in view of the increasing number of such characters (I. W. W.'s and radicals generally) in Butte, many of whom were working in the mines, that in order to do any part of its duty to the community and to itself, it must establish some system of knowing its employees. This was the main reason for the adoption of the rustling card system."[8]

He cited as additional reasons for it the following: (1) the necessity of having the names of its employees as a sort of system of identification so that the merchants in Butte could protect themselves from the increasing number of dead-beats, it having been represented to the company that many had obtained credit under false names and on the strength of the fact that they had secured work in the Butte mines; (2) the necessity of protecting the miners against certain foremen who were said to be making a practice of collecting from some of the men a part of their wages, in other words, charging them for their positions; (3) the necessity of furnishing the federal and state governments certain details of employment operations which could not be secured under

[7] Missoula address of L. O. Evans, August 29, 1917, pamphlet (Butte, Mont.), p. 18.

[8] *Ibid.*, p. 18.

any system less searching and comprehensive than the employment system in vogue. The vice-president of the company declared to the United States Commission on Industrial Relations that "the object lying behind it [the rustling card system] is to give the Anaconda Copper Mining Company the information concerning its employees which it deems it has a right to ascertain and which to my knowledge has never been abused in any way."[9]

The statements of officials of the Anaconda Company agree that the primary object of the rustling card is to keep out certain classes of employees. The company contends that by so doing it is performing a service to the government, to the loyal employees working in the mines, and to the citizens of the community in which the mines are located. The company unquestionably feels that it has the right to keep its enemies out of its employ. The members of the I. W. W. and the Metal Mine Workers' Union are regarded as enemies of the company and of the country and dangerous men to have in the mines. The federal prosecution of the leaders of the I. W. W. organization is taken by the Anaconda Company as a further ground for trying to keep the organization out of its mines. All of the company officials have charged in the Butte papers and in the presence of the writer that the I. W. W.'s are actually dangerous to the safety of the mines and destructive of mining property. It must be said, however, that no concrete evidence of any such destructive acts has been submitted.

In this connection the experience of one of the smaller mining companies in the Butte district is significant. This company operates its property—the Elm Orlu mine—and hires its miners without making any use of the rustling card. The president of the company states that they are opposed to it because they consider it un-American. Members of the I. W. W. or the Metal Mine Workers' Union are at liberty to apply for work in this company's mine, and members of both organizations were pretty constantly at work in that mine during and since the war period. The president of the company reports that they have had no trouble in regard to destruction of property and that no suspicion has attached to members of the I. W. W. in connection with mine fires or other acts of violence. Moreover, the Elm Orlu is not protected either by a fence around the mine shaft or by guards

[9] *United States Commission on Industrial Relations, Hearings*, vol. iv, p. 3,700.

around the mine property as are the mines of the Anaconda and most of the other companies in the Butte district.

It is quite evident that the charge of maintaining a blacklist by means of the rustling card would be less serious if the card were used only by the Anaconda Company. When two or more companies make use of the same system, however, such a charge may have no little force, especially if they use this method to keep out certain classes of employees for reasons unconnected with the ability of the men to do the work for which they apply. There may be unjust discrimination in the operation of such a system by one single company and it may be very serious discrimination, but it would not necessarily constitute a blacklist. The use of the card by two or three very small companies might technically make it a blacklist without appreciably increasing the amount of discrimination made in its operation, inasmuch as the one big company hires a majority of the men that are hired in the district.

Attitude of the miners' unions toward the rustling card.

There is little expressed opposition to the rustling card system except by the two radical unions. The Butte Miners' Union, Incorporated, is too small and too much preoccupied with litigation for the recovery of its property to do anything about the rustling card. A conversation with one or two of its members revealed the fact that they personally disliked the rustling card, but had no particular argument to make against it. The International Union of Mine, Mill & Smelter Workers does not consider it good policy to make an issue of the rustling card now, because its rivals, the two radical unions, are making an issue of it. On the occasion of one of the writer's visits to the headquarters of the Mine, Mill & Smelter Workers he heard a defense of the rustling card system quite as emphatic as he later heard in the general offices of the Anaconda Mining Company. The officials of the International Union of Mine, Mill & Smelter Workers and of the American Federation of Labor admitted later that they disliked the rustling card, in and for itself, that probably all of the miners in Butte disliked it, that they considered it an un-American institution, but that compared with other employment systems in vogue in this country it was very simple and unobjectionable. They stated, however, that the card did not constitute a grievance of sufficient importance to justify any active campaign against it and moreover that it would be exceedingly poor policy to make such a

campaign at the present time because the two radical unions were making the rustling card the chief issue, and by so doing were trying to break up the "legitimate organizations of labor" in the Butte district. For those organizations to join the I. W. W. and the Metal Mine Workers in their anti-rustling-card campaign would be against their own interests.

None of the Butte unions have ever made the rustling card the subject of an agreement with the Anaconda Company or any other mine operator. Nor has the Anaconda Company ever attempted to have a clause agreeing to its use inserted in any contract. However, the company makes no agreements with any of the four unions of (underground) miners, its last agreement with underground men being the 1912 agreement with the Butte Miners' Union No. 1. The draft agreement submitted to the Anaconda Company by the Montana State Metal Trades Council in July of last year contained a clause demanding "the abolition of the rustling card in its entirety," but it appears that the negotiations were unsuccessful. The second of the demands of the Metal Mine Workers' Union of America, dated May 27, 1919, is for "the unconditional abolition of the rustling card system and the reinstatement of all black-listed men." The first demand is for the recognition of the union.

The two radical unions are bitterly opposed to the card. They charge that the real object of the company is to nip agitation in the bud, to punish those who were at one time active in the socialist administration of Mayor Duncan, to prevent the Socialist party from again securing a foothold in Butte, to strengthen the hands of those unions which it considers less aggressive and more easily dealt with, and to curb at all costs the propaganda of industrial unionism whether preached by I. W. W., Metal Mine Workers, or Socialists.

The Metal Mine Workers insist that the company is making use of the issue of patriotism to conceal its own profiteering and to protect itself in its attacks upon unionism, that it is imputing disloyalty to its enemies, the radical unionists, and investing itself with the halo of patriotism in order to discredit all aggressive tactics and outspoken complaints in regard to economic conditions.

Testimony of individual miners.

It would appear from the affidavits sworn to before the writer by nearly 100 miners as to their individual experiences with the

rustling card: (1) that men are refused cards without any reason being assigned therefor and, if employees ask for the reason, the usual explanation given is "The company will not require your services again"; (2) that to those who have been particularly persistent in following up the matter at the general offices of the company, it has been intimated that socialist, I. W. W., or anti-Anaconda activities in the Metal Mine Workers' Union have been responsible for the withdrawal of the rustling card; (3) that violence, destruction of property, and sabotage are not practiced in the mines and according to the oath of those men of more radical affiliation the use of such violence is not even preached or advocated to any appreciable extent by the mine workers.

Effects of the operation of the rustling card.

In considering the actual results of the five years of operation under the rustling card it is important to note, first, that the actual and relative number of refusals has been surprisingly small. The following paragraph from the address of the chief counsel of the company previously referred to gives the company's statement of the numerical proportion of refusals to applications:

> To any charge of abuse of this system by the Anaconda Company the figures shown upon the employment records present a plain refutation. Since the employment office was first established, in December, 1912, and until May 17, 1917, there were 53,323 applications for these cards. Of this total number 1,004 were refused. Of the 1,004 originally refused, 357 cases were reconsidered and the applicants reïnstated and the cards granted. These reinstatements were the result of further investigation which showed that in a very few instances errors had been made in indentification, and in other cases the applicant was reïnstated because of the intercession of prominent people of Butte who guaranteed the reformation and future good conduct of the applicant, leaving just 647 as the net number refused during this entire period of some four and one-half years, when the average number of employees has been from 10,500 to 11,000 and at times when the change of employees during a month amounted to twenty to thirty per cent and even higher at times.[10]

The company further reports that up to June 30, 1920, there were 73,501 rustling cards issued; that the total number refused to that date was 1,817 of which number 1,201 were reïnstated, leaving a grand total of 616 absolute refusals.

In considering the Anaconda Company's records of refusals under the card system, it should be pointed out that no figures are

[10] Missoula address of L. O. Evans, p. 24.

presented for the two-year period before 1914. The company states that there were no refusals during that period. The Metal Mine Workers deny this. They declare that "everyone in Butte knows that hundreds of them were blacklisted long before 1914 and that the great majority of these men have not been able to work on the hill since."[11] The company also claims that only 1,817 men (or 616 after deduction of those "reconsidered") have been refused cards. The Metal Mine Workers declared that in 1917 as a matter of fact more than five times the number of men reported by the company as having been blacklisted had been blacklisted.[12] They say, furthermore, that a number of men who have criticised the company have not been allowed in the rustling card office and that others have been so sure they would be turned down that "they have not bothered to go through the routine of asking for a card." There are undoubtedly some miners of whom this is true, but their number cannot be large.

To keep undesirable characters out of the mines has been officially declared the primary object of the rustling card. This object has not been attained. Miners of various union affiliation and officials of the company admit that there are at the present time a number of I. W. W.'s working in the mines of the Anaconda Company and of the other companies using the rustling card. The evidence seems to indicate that there are more members of this organization working in Anaconda mines than in mines where the rustling card is not required. There are also, on admission of company officials, members of the Metal Mine Workers' Union employed in the Anaconda Company mines. While there have been minor accidents in the different mines from time to time responsibility has not been definitely fastened upon the I. W. W.'s or upon the Metal Mine Workers in any case. It is probably true that there is in the mines a smaller proportion of I. W. W.'s and other radicals who are aggressive and active than would be the case if they had not been sifted in some way. The rustling card possibly keeps out the noticeably active and talkative radical.

Officials of the company have intimated that the increasing number of I. W. W.'s among the miners has resulted in a greater shiftlessness and instability of employment in the mines and implied that the effect of the agitation has been to shorten the average length of service. Whatever the cause may be it is a fact

[11] Strike Bulletin No. 38, Sept. 8, 1917.

[12] Strike Bulletin No. 34, Aug. 30, 1917.

that the labor turnover among underground employees of the Anaconda Company has greatly increased since 1914. The annual rate of job replacement has increased from 3 per employee in 1914 to 7 per employee in 1917, 10 per employee in 1918, 7 per employee in 1919, and 9 per employee in 1920.[18] Whereas in 1914 each job was occupied during the course of the year by 2½ men on the average, in 1917 each job was occupied by 7 men, in 1918 by 10 men, in 1919 by 7 men, and in 1920 by 9 men on the average; or, to put it in another way, in 1914 each employee worked 4½ months (137 days) on the average, while in 1917 each employee worked less than two months or more exactly for 53 days on the average, in 1918 for 38 days, in 1919 for 53 days, and in 1920 for 41 days on the average.

The increase in labor mobility cannot be directly connected with the number of I. W. W.'s employed in the mines. The sanitary conditions in the mines and the hard and hazardous nature of the employment make for a high labor turnover but do not explain the increasing rate. Sanitary and safety conditions are a great deal better now than formerly, but the miner's standard of convenience, safety and hygiene have no doubt more than kept pace with improvements. The war, of course, had a great deal to do with the unprecedented increase in mobility between 1917 and 1918. The war period brought with it a great increase in the demand for labor, at the same time that its supply was enormously cut off by mobilization at home and abroad.

A great many of the miners seem to be entirely indifferent to the rustling card controversy. In general the indifferent employees are the ones who have personally suffered no deprivation because of the card. They are men who are satisfied if they can get steady work even at so hazardous an occupation as underground mining and they do not care to risk the loss of their jobs for the very remote and uncertain advantages which the spreading of unrest might bring them. Very few members of the craft internationals have made any complaint about the card. Three of the A. F. of L. organizations in Butte have openly criticised it: the Butte Workingmen's Union (a "town" organization of unskilled laborers), the Butte Local of the International Brotherhood of Electrical Workers, and the Steam Engineers' Union No. 83, affiliated with the A. F. of L. through the International Union of Mine, Mill and Smelter Workers.

18 Rate for 1920 based upon employment records for the first six months.

It is alleged by the Butte Workingmen's Union and the Metal Mine Worker's Union that the rustling card employment system has resulted in a large proportion of inexperienced men being taken into the mines and as a consequence a loss in efficiency and a very appreciable decrease in tons produced per man. They say that if the experienced miner who happens to be a socialist or an industrial unionist were not discriminated against, but allowed to work, there would be greater production, or, assuming capacity production, that this tonnage would be hoisted by fewer men. It is impossible to completely verify the truth of this statement without making a very detailed study of the per man output during a period of years and of the present composition of the working force with special reference to length of mining experience. Figures furnished by the Anaconda Company show for each month from June, 1914, to June, 1920, the tonnage output per man per shift. In June, 1914, it was 1.6 tons. From that time on to September, 1917, except for an increase to 1.8 in the winter of 1915, it suffered an almost continuous decline, being in the latter month 1.2 tons, and only rising again to 1.6 tons in March, 1918, after which time it declined, slowly in 1918 and more rapidly in 1919, reaching 1.2 tons per man per day in June, 1919. The lowest production record in the period under review was reached in December, 1919, when it stood at 1.1 tons per man per shift. The following months showed improvement and in June, 1920, the figure was 1.4. The operators believe that the average miner is not much less industrious than he was five or ten years ago, that there is at present a great amount of loafing on the job, and that a very large proportion of the nominal eight working hours are spent in resting. Indeed one of the leaders of the Metal Mine Workers' Union admitted to the general superintendent of the Anaconda Company, in the presence of the writer, that if a miner today could not do a day's work in five hours, he wasn't much good.

Conclusion.

It is sufficiently evident from what has been said in the preceding pages that the situation in Butte is a delicate and complicated one—and menacing. Even if their charges were unfounded, the fact remains that a large proportion of the miners are not satisfied, that the feeling in the community is exceedingly bitter and agitation and espionage go on, that dark suspicions of mo-

tives rankle in every interested faction. The company officials picture as anarchists, wreckers, and pro-Germans all those who attack them or advocate the new unionism. The union officials suspect that any of their fellow-workers may be stool-pigeons and sometimes even put in that category their own colleagues in office.

Even though the rustling card is less of an evil than the radicals paint it, even though the actual amount of discrimination under it is very small, the fact remains that, in itself, it is disliked by the miners, mildly disapproved of by the A. F. of L. men, and violently opposed by the I. W. W. and Metal Mine Workers. The actual discrimination is perhaps less important than the fear and apprehension which its critics believe the rustling card instils into the minds of the miners. They feel that it is a club held over them and they fear the consequences if they speak out about unsatisfactory conditions or about the card itself. The rustling card is perhaps more potent as a potential black-listing agency than as an actual black-listing machine.

The attitude of the company toward the general operation of the mines does not tend to dissipate this feeling of dissatisfaction. The miners have no voice or part in the management or in the determination of working conditions, the company's policy being that the administration and operation of the mines are purely company matters, to be carried on without advice from the general public and least of all from the miners. It is true that in February, 1918, the Anaconda Company announced the creation of a new department to be managed by one of their former foremen as a "commissioner of labor." This office, however, is merely a clearing house for the grievances of individual miners, a very necessary agency which had been lacking before. There had been no definite provision for the hearing of grievances and the seriousness of this lack is shown in many of the affidavits made by the miners. The new "commissioner" has nothing to do with employment. He simply hears grievances and tries to adjust them.

The operating officials of the Anaconda Company have not looked very favorably upon suggestions that the rustling card office be radically modified and expanded into a genuine employment bureau through which men would be actually hired and discharged. A transformation of the system along these lines would not of course give the company any greater power than it now has to refuse employment to those men whom it considers it inadvisable to employ. Even the existing machinery of the rustling card

is not absolutely necessary to enable the employer to keep out of his employ those whom he does not want. It is generally understood that any employer may hire whom he pleases and many employers manage to keep out a large proportion of those who are not desirable without the use of a rustling card system. The exclusion of "undesirables" as effected by the Anaconda card may or may not constitute a black list and the threat of exclusion may or may not be the threat of the black list. As has already been remarked, the purpose of selective and consistent exclusion of undesirable employees has been achieved, with or without the rustling card, only to a very limited extent. Quite as effective exclusion is believed to be possible through a company bureau of employment of the type now common in the United States, a bureau which actually hires men and through which they "clear" when quitting or discharged. Two or three of the smaller mining companies of the Butte district have established such bureaus and, so far, report satisfaction. Such a bureau, moreover, would be quite as effective a record-keeping agency as is the present system of the Anaconda Company. It would be free from the objectionable features of that system: the necessity of getting a permit before it is possible to even apply for work and the possibility of the abuse of such a permit. In other words, the purposes of the rustling card system which are not subject to criticism, the bookkeeping purposes, are fulfilled by record keeping parts of the system, which would function quite as efficiently in a modern employment bureau. As for the purposes which are subject to criticism, whether the criticism is valid or not, they are being only incompletely achieved. Despite the rustling card, I. W. W.'s and other radicals are working in the mines. The evidence also indicates that Metal Mine Workers, I. W. W.'s, socialists, and others have been kept out by means of it. It is entirely legitimate and quite right and proper for employers to reject job-applicants on either one of two grounds; viz., (1) that they are not qualified to do the work required; and (2) that they will be likely to inflict damage upon company property. There is grave doubt of the wisdom of doing it for any other reason.

Paul F. Brissenden.

New York University.

Postscript

On April 18, 1920, the I. W. W. miners' local in Butte called a strike. The strikers demanded, apparently without presenting their demands before the strike was called: (1) the release of "political and industrial" prisoners, (2) a six-hour day from collar to collar, (3) an increase in wages from $5.50 to $7.00 per day, (4) abolition of the contract and bonus systems, and (5) abolition of the rustling card. On the nineteenth the strike was on and picket lines out. Two days later, on the twenty-first, there was a clash between deputy sheriffs and strike pickets on the Anaconda road. There was shooting; and, as a result, according to a news item which appeared in the New York *World* on April 22, "fourteen I. W. W. strike pickets and one policeman [deputy sheriff?] are in hospitals tonight with gunshot wounds." Subsequently at least one of the strikers died. This shooting affray ended the strike, at least in its active phase.

There have followed more or less closely on the heels of this last strike two developments of no little importance in the history of the Butte rustling card. The first of these was the explicit announcement by the Anaconda Copper Mining Company that I. W. W.'s would not be employed in its mines. On the occasion of the writer's last visit to Butte, in July, 1920, he found posted in that company's offices and elsewhere on its properties large posters reading as follows: "No member of the I. W. W. will be employed at this property.—Anaconda Copper Mining Company." These notices bore the date May 10, 1920. This new policy was adopted, no doubt, largely as a result of the strike of the preceding month. It is to be noted also that it involved the explicit elimination from employment in the Anaconda mines (and so, very largely, from employment in the Butte district) of one of the two miners' organizations which have been most actively hostile to the rustling card.

The second new development was an important change in the employment system in the Butte mines—a change which involved the transference of the administration of the system from the single auspices of the Anaconda Company to the joint auspices of all (or nearly all) the operators in the district. This new, jointly operated machinery is called The Butte Mutual Labor Bureau. It happened that the offices of this new bureau were just being opened at the time of the writer's last visit to Butte. The new bureau issues a "recommendation card"—a cardboard folder

bearing on the cover the name of the bureau and on the inside containing the following:

No..........

This is to certify that at this date of issuing this card............
Mr. .... is recommended by Butte Mutual Labor Bureau for employment.

....
Manager.

Age ....

Height ....

Color eyes ....

Color hair ....

Weight ....

Complexion ....

Nationality ....

For the Protection of Holder
(Non-transferable)

This card is the exclusive property of the Butte Mutual Labor Bureau, who may recover and take possession of it at any time. It cannot be sold or loaned, and if presented by any one but the original holder it will be taken up and canceled. If lost, notify the Manager at once.

The above conditions are accepted.

Signature ....

Before this card is issued to the applicant he is required to fill out an "application for recommendation" which presents two pages of questions to be answered—many more questions than were asked by the Anaconda Company before issuance of its rustling card. Among the questions on the new application form are several concerning citizenship, one which asks: "Do you believe in a constitutional form of government?" and the three following in regard to radical labor organizations: "Are you a member of the I. W. W.? Are you a member of the O. B. U.? Do you believe in the purposes or methods of the I. W. W.?"

When a miner who has secured one of these "recommendation cards" gets a job in one of the mines his card is held at the mine office during the period of his employment. When he quits work in that mine he goes to the office of the bureau, makes application again, and, after his record is checked up, again receives the card for the purposes of another job hunt.

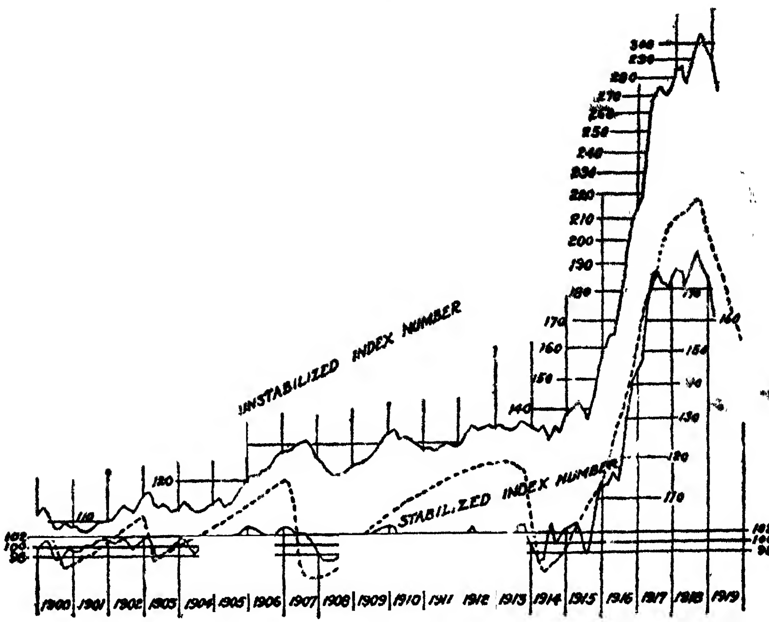
It is evident that this card, like the Anaconda Company card described above, is a "rustling" not a hiring card. However, it would seem to be a distinct improvement over the Anaconda card in that it is issued jointly by the mine operators of the district rather than by a single company. P. F. B.

A "STABILIZED DOLLAR" WOULD PRODUCE VIOLENT CHANGES IN PERIODS OF FALLING PRICES

Professor Fisher's new book, *Stabilizing the Dollar*, brings under one cover much of the material he has presented in numerous papers and develops the argument for his plan in such persuasive form that the reader can hardly escape regretting his inability to be converted. The evils of changing prices are so vividly portrayed, the mode of escape so logically presented, that the care-worn student of the phenomena of prices would fain accept the analysis. The book is in a class with Henry George's *Progress and Poverty* in the matter of winning exposition; and to say that is near the height of praise. But, if one is more concerned with understanding than with peace of mind, the very clearness of the explanations, the simplicity of the plan, and the confidence in its effectiveness awaken caution and enjoin care in the attempt to forecast what the effect of the plan would be in the economic circumstances under which it would have to be put into operation if it became a working reality.

The writer desires to call attention briefly to the phase indicated in the title of this paper, *i.e.*, the probability that if Fisher's plan were in operation the periods when prices are falling would be marked by sharp drops in money values that would be disastrous to many lines of business and would increase the distress that goes along with depressions in the recurring business cycles.

Professor Fisher presents on page 204 of his book a diagram illustrating the movement of the index number with and without stabilizing according to his plan. This diagram is reproduced here with an additional *conjectural* line indicating what the writer believes would be something like the movement of price changes under Fisher's plan in actual operation with the commercial banking practices as they are in common operation. Instead of the fairly even "stabilized index number" line or the irregularly rising "unstabilized index number" line, there is reason to believe that the actual course of prices would be somewhat as shown by the intermediate line. No attempt has been made to calculate the precise movements of such a line. All that it suggests in an exaggerated degree is that periods of rising prices in times of prosperity would be followed by abrupt declines in prices when depression sets in. The declines that are the normal results of reaction would be greatly increased in speed by Fisher's plan and



In the diagram the upper curved line, reproduced from Fisher's *Stabilizing the Dollar* (p. 204), shows the actual movement of prices, while the lower curved line shows the movement of prices that Fisher believes would have taken place had his plan been in operation. The dotted line is conjectural, meant merely to illustrate the probable violent falls in prices that would occur were Fisher's plan operating in the recurring periods of decline from prosperity to depression. No attempt has been made to calculate the dotted line to scale. It doubtless exaggerates the violence of the probable fall and is unduly smooth.

the difficulties of readjustment would be more serious. Business mortality would rise, failures multiply, and opportunities for mitigating disaster by spreading the losses over the community would lessen. The level might not rise as high as in the case of unstabilized prices, hence the distance of the fall might be shorter but the descent would be more abrupt, less subject to control. Instead of a fairly stable price level there would have been experienced in the period covered by the table a somewhat lower level in the peaks of prices and a more violent collapse as periods of expansion passed into contraction. The paragraphs which follow attempt to make clear the reasons for anticipating more trouble from the operation of Fisher's plan than it professes to be able to cure, granting that it could be set going as he so ably outlines it.

Fisher's plan is doubtless too well known to justify taking the

reader's time to restate it. A summary of its maturer form will be found on pages 104-105 of the volume. Its essential features are the adoption of a representative assortment of commodities worth at the outset a gold dollar of the present weight; the establishment of an "index number" for recording, at stated intervals, the market price of this ideal goods-dollar in terms of the gold bullion dollar; the adjustment of the weight of the gold bullion dollar at stated intervals, each adjustment to be proportioned to the recorded deviation of the index number from par. This constant process of adjustment would keep the purchasing power of the dollar about equal to the value of the representative assortment of commodities. The deviations above and below par would be negligible.

"In addition to these features of the plan should be mentioned the tacit assumption that we retain a sound banking system. Without such, the effectiveness of the stabilization plan would be quite lost" (p. 105).

The importance of this assumption to the success of the plan is vital. The purpose of this paper is to point out that either certain current ordinary practices of commercial banks are not "sound" and should cease or that Fisher's plan, if workable at all, would produce violent declines in prices when business cycles turned from the peak of "prosperity" downward.

As indicated by the diagram, reproduced above from p. 204, Fisher points out that his plan would not have worked in the period of the Great War. "Stabilization and inflation are mutually incompatible" (p. 227), he points out, though he believes that "in all ordinary wars, there is no need of inflation." Whatever truth or optimism there may be in this belief, the point of importance in this connection is that inflation by the use of bank credit makes the plan ineffective to prevent rising prices.

The process of credit inflation in connection with war finance has been made familiar in discussions too many to mention. The government received credit on the books of the banks in exchange for certificates of indebtedness. These certificates were paid off largely from the proceeds of bond issues. The bonds were bought in great measure by purchasers who obtained credit from banks by using the bonds as collateral. The upshot of this system was that the bond buyers, in many cases, bought not with the savings from their current expenditure but with the borrowed credit of banking institutions. The buying of individuals and institutions

for their own purposes went on as usual. To this buying power was added the buying power of the government created by banks and transferred to the government by the bond buyers. This ordinary buying power of individuals and institutions arises from the goods and services they are offering for sale. They offer to and demand from the market goods and services at the same time with no disturbing influence in the price level. When the use of bank credit creates buying power beyond this ordinary amount inflation appears. When ability to buy arises not from the current offer of merchantable goods or desired services the mechanism is put out of gear. The ability to demand outruns the rate of supply of commodities, and prices rise. When this is the accompaniment of extensions of bank credit to the government in war time we have the type of inflation that is so large a feature in our present price situation.[1] If purchasers of bonds had paid for them out of savings they would have withdrawn themselves from the market as buyers and transferred the purchasing power to the government, thus not disturbing the equilibrium between supply and demand at the existing price level so far as this type of transaction was influential. "In all cases where the amount subscribed is not saved, the Government creates or secures purchasing power without creating any equivalent goods to purchase. . . . All of these methods of war finance . . . are inflation none the less, even when gold redemption has been nominally maintained, and they therefore tend to add to the cost of living" (Fisher, p. 34).

It is doubtless unnecessary to go to greater lengtn in bringing to the reader's attention the two important facts: (1) that Fisher's plan would not prevent prices from rising when credit inflation exists; (2) that credit inflation consists in the creation of buying power by the extension of bank credit not accompanied by the offer of equivalent merchantable commodities on the market.

These lessons of wartime finances and prices are easily learned because they were illustrated on a grand scale. Peace also has its inflations, though less renowned than war's.

In the ordinary processes of business the credit of commercial banks is used to assist in the purchase and sale of marketable goods. It takes the form of short-time notes which are to be paid

[1] The statement above may seem to indicate a belief that inflation is the "cause" of high prices. The writer is not of that opinion as indicated later.

from the receipts from the sold goods. The extension of credit to permit buying is accompanied almost simultaneously by an offer in the market of the salable commodities. The effective demand for goods thus made possible is accompanied by the supply of goods. The equilibrium between supply and demand is not seriously disturbed and the extension of credit has no lifting influence on the general level of prices. As long as commercial bank credit serves this purpose there is no inflation. But this is not the only use to which it is put.

In the course of the economic life of communities and countries there occur opportunities for acquiring wealth through the extension of business enterprises and investment in new ventures. No two occasions are precisely alike, but the general characteristic of all is the chance of gain to those who promptly enter the field. The source of the gain may be the development of new territory, the exploitation of natural resources, the creation of a new manufactured product, the utilization of freshly discovered industrial processes, a favorable relation between expenses of production and the prices of finished products which an exceptional demand such as that of war time creates—any of these offer business enterprise the opportunity to invest capital and secure the promised exceptional profits.

What captains of industry need under these circumstances is command over purchasing power that will enable them to secure the capital equipment required to develop the opportunity that they see open to them. The method of putting into their hands this command over purchasing power, honored in theory, is to have savers transfer their accumulations to these business men, thus postponing consumption and allowing their buying power to be turned to the purchase of capital goods. Manifestly as long as this is the sole method of securing capital for business extensions there is no danger of inflation. The net result is to turn effort from supplying consumers with dispensable goods to the creation of capital instruments for further production without any uplifting effect on the price level. But this process is slow, closely limited at any time, and not responsive enough to enable the enterprisers to seize the chance promptly. Another source is open to them and they are allowed to tap it.

The long and honorable practices of commercial banks has created that community asset called bank credit. That is to say, people have become so accustomed to getting money from the

banks in which they have deposits when they need it that the right to draw from a bank has become equivalent to money for purposes of purchasing in the vast majority of modern transactions. This community asset when used by the banks as indicated above for facilitating the purchase and sale of commodities is of great advantage to the community and the chief source of profit to the banks. The banks are in a sense the trustees for the people, the custodians of this intangible public asset, this faith that moves mountains of salable goods every day in the year. In the banks' hands the common trust has placed the power of increasing or decreasing this purchasing power within fairly wide limits. Upon them rests the obligation to safeguard this public intangible property and at the same time utilize it as fully as circumstances will warrant. To overstrain it or break it down would be to betray a trust. To fail to employ it wisely would be to neglect the service of the people and the advantage of the banks. The advantage to the banks of extending the limits of their credit by increasing purchasing power for borrowers is so evident that they are more likely to err in this direction than in the undue contraction that would unnecessarily hamper the exchange of commodities.

To prevent the unwise extension of bank credit two safeguards have been set up. One is the percentage of reserve that must be maintained against loans and the other is the kind of loans that may be made; the latter requiring that only commercial paper of short maturity be the basis of the loans. The first, the percentage of reserves, stated in figures and readily calculated, has a definite character that has given it a prominence as a standard that is important and serviceable. But as a matter of fact, from the point of view of community interest the second point is deserving of the greatest consideration. The use made of the credit loaned is of more significance than its amount when we are concerned with the problem of inflation. In the matter of the use made of the borrowed credit there is not usually any particular publicity, no very precise standards, considerable ease of concealment, the interest of the bank in extending its volume of business, and frequently little development of the sense of trusteeship on the part of the banker. The question as to the purpose to which the borrowed credit is to be put is often answered with a view to the bank's safety and possible profit rather than to the effect on the general public of the use of this purchasing power.

When the economic situation is characterized by the four ele-

ments suggested above, *i.e.*, energetic captains of industry, exceptionally promising opportunities for profitable enterprise if purchasing power to secure capital is obtainable, the slowness of savers to furnish this purchasing power, and the possibility that commercial banks may use their credit for this purpose rather than for facilitating the scale of marketable goods—when such a situation obtains there is invariably the use of bank credit for the purposes of investment to secure command of capital rather than to facilitate buying and selling goods. The nominal form of short-time loans may be retained, but repeated renewals have the same effect as if the paper were for a prolonged period. The purchasing power created is not used to assist in the offer of salable goods. It goes into the employment of labor to produce equipment or the purchase of equipment which will not produce commodities for the market until a considerable period has elapsed, even years. For the time the same result follows that Professor Fisher notes in the case of the government's borrowing during the war. But instead of the government it is the captains of industry who at this time secure "purchasing power without creating any equivalent goods to purchase. . . . All these methods of . . . finance . . . are inflation none the less, even when gold redemption has been nominally maintained and they therefore tend to add to the cost of living" (Fisher, p. 34).

The recurring periods of business expansion that we call "prosperity" because of the conditions indicated are periods of inflation, of upward moving prices. The difference between this type of inflation and that of the war is one of degree in its connection with prices. In neither case is the inflation the "cause" of higher prices. In both cases the need for more non-salable goods is so imperative that the volume and speed of output must be increased. To overcome any resistance and secure the services and materials necessary, greater expenses are incurred, higher prices have to be paid, and the possibility of increasing the volume of loans enables these prices to be offered. Thus the inflation "permits" rather than "causes" the higher prices. Captains of industry resort to bank credit to secure the additional purchasing power required to call forth the additional quantity of capital goods within the time in which they think they can seize the profitable opportunities to invest and develop. The inflation is thus caused by the necessity for offering higher prices to secure the required goods and services.

During the past the level of prices in booming times has risen on the crest of prosperity and fallen into the trough of the succeeding depression with little opposition or acceleration. If Fisher's plan were put in operation and actually worked, in the period of rising prices the level of prices would not rise unhindered. The position of the line indicating rising prices would be the result of two forces: the expansive force of the boom demand and the retarding influence of Fisher's compensatory device. The latter would act as a check on the rising tendency during the period of inflation so that the rate of rise perhaps would be somewhat less rapid and the peak of prices somewhat less high than they have been in the experiences through which business has hitherto gone. When the period of expansion has passed, under the influence of the compensatory plan, the influences leading to the expansion of prices would cease and instead of the usual rate of fall in depression the influence of the compensatory arrangement working with full force would draw the level of prices down with abruptness. The drop from the high level of the expanded period would be sudden. When a boy flies a kite in a favorable breeze the kite rises on the wind and settles down when the breeze ceases to blow. But if the string holding the kite were elastic it would stretch as the breeze grew stronger and contract when the breeze fell—thus the kite would be drawn down abruptly as soon as the wind's support stopped. In similar fashion Fisher's plan for stabilization would not prevent prices from rising on the winds of a "boom." As soon as the breath went out of the "boom," the compensation plan would draw prices down with a jerk and the rate of fall in a period of reaction to depression would be greatly accelerated.

The collapse of the price structure following the turn from "prosperity" would make it extremely difficult and often impossible to make business adjustments. The problem is bad enough now. Fisher's plan would make it very much worse. Changes that are not too sudden may be met by careful planning, but abrupt declines would fall heavily on the enterprisers, bringing financial ruin to them and disorganization to the community in general.

Professor Fisher's explanation of trade cycles (p. 65) on the theory that "price fluctuations cause alternate fluctuations in business, that is, booms and crises, followed by contractions and duced by the very tax itself), we are involved in circular reason-

Fluctuations in business cause fluctuation in prices, when the situation is not complicated by such a phenomenon as war. Subsidiary businesses may be stimulated by higher prices but these in turn are due to expansions in the fundamental businesses which have been stimulated by the hope of exceptional gains in some field of development and exploitation. Fisher declares "it seldom occurs to business men that business thus staggers about because the dollar staggers." There is not sufficient reason why it should. Price changes are a link in the chain of influences that affect the conditions prevailing in prosperity and depression, especially in connection with long-time contracts, ownership of large stocks of goods, and claims for definite sums of money or obligations to pay them, but the price changes are the results of and transmitters of, not the fundamental causes of, the fluctuations between good and bad times.

Unless there is a radical change in the usual course of business and methods of banking the adoption of Fisher's plan is full of peril. It would not prevent price advances while bank credit is used to further investment enterprises and it would result in radical falls in prices when the stimulation of boom times was passing away. Whatever gains might be secured through offsetting changes in prices over a series of years that might be attributed to variations in the value of gold in relation to goods would be more than lost by the evil done through the increased violence of falling prices in the recurring periods of depression that accompany the activities of business enterprise as aided by the use of bank credit.

C. C. Arbuthnot.

Western Reserve University.

SUGGESTIONS FOR REVISION OF THE FEDERAL TAXATION OF INCOME AND PROFITS

For a year or more the federal excess profits tax has been under fire. No other part of our war finance program has been so strenuously assailed. It seems to be generally assumed that, in the peace-time revision which is due, the excess profits tax will be the first to go.

On the other hand it is evident that for some years the needs of the federal treasury will be heavy. Even assuming that the proper degree of economy is exercised, the ordinary expenditures of the government may be expected to proceed on a scale at least double the pre-war figure. In addition, there is the public debt charge for interest and amortization, which should add more than a billion* to the annual expenditure. The revenue obtained from the excess profits tax will therefore be needed, and proposals for abandoning it are usually accompanied by suggested substitutes, such as increases in the personal income tax, the tax on gross sales or turnover, etc. Starting with the assumption that the excess profits tax is to go, root and branch, the task is to find the least objectionable substitute.

I am of the opinion that this method of attack is a bit hasty and superficial. By focussing attention upon the weaknesses of the excess profits tax, we are in danger, on the one hand, of neglecting other parts of the tax system which are defective and, on the other hand, of overlooking features of the excess profits tax which may possibly be worth retaining. Furthermore we run the risk of being stampeded into ill-considered substitutes. The problem of reorganizing the federal tax system involves, in my opinion, a good deal more than getting rid of the excess profits tax and finding the least objectionable substitute. In particular I believe the time has come to harmonize our taxation of personal incomes and corporate profits upon the basis of the personal obligation of each citizen to pay taxes according to his ability. If this essay has any excuse for appearing now, after so many able discussions of our tax problem, it is because it seeks to make some contribution to this end.

The foundation of the federal tax system is and will almost certainly continue to be the individual income tax. The taxation of corporate profits should be for the purpose of rounding out a consistent tax system based upon the individual income tax. All

questions of justice in taxation must finally come down to the individual taxpayers. Corporations as such have no tax-paying ability. The taxation of corporations should be with a view to reaching the tax-paying ability of the investors and others interested in them. In this respect the present tax system, handed down to us as a heritage of the war, is far from perfect. How may it be remodelled with this end in view? The search for an answer will lead us to the consideration of some fundamental, albeit elementary, principles.

An income tax which contained neither personal exemption nor progressive rates could treat individuals and corporations exactly alike. Corporations would be taxed on all their net income, excluding interest paid on bonds and notes. Dividends would not be included in taxable personal income, though interest on bonds and notes would be included. The size of business or the character of its organization (whether individual, partnership, or corporation) would make no difference. There would be no question of undistributed earnings. All earnings would be treated exactly alike, regardless of their later disposition. This simple scheme was in people's minds when the problem of taxing corporations first arose. Under the general property taxes of the states it was assumed that taxing the corporation on all its property was the equivalent of taxing all the stockholders on their shares, and much easier of administration. Barring interstate complications and the question of bonds and notes, this was in the main true. The same idea was in mind when the income tax on corporations was first introduced. Corporate income was taxed in lieu of taxing individual income in the shape of dividends.

But here the scheme breaks down on account of (1) the personal exemptions and (2) the progressive rates of the personal income tax.

1. As regards the personal exemption the matter is simple enough. The corporation is taxed upon all its net income (less $2,000) regardless of the personal exemptions to which its stockholders may be entitled. Suppose *A* owns $50,000 of stock in a corporation of $1,000,000 capital. The corporation's net income is $80,000, of which *A*'s share is $4,000. The corporation (assuming no excess profits tax is due) is taxed 10 per cent on its net income, (less $2,000) or $7,800, which reduces *A*'s share by $390. *A*'s dividend is reduced to $3,610. *B* derives an income of $4,000 from a business or profession. He enjoys the personal ex-

emption of $2,000, and his income tax is $80. Assuming *A* had no other income and was also entitled to the $2,000 personal exemption, he should have paid no higher tax than *B*. Even if the rate of the corporate income tax were the same as the lowest normal rate of the individual income tax (4 per cent), *A*'s tax liability would have been $156, double that of *B*, through denial of his personal exemption. This discrimination against income from corporate investment is important, of course, only to those of small ncomes. The wealthy and well-to-do will generally have other incomes from which to deduct the personal exemption and, at any rate, the personal exemption is not so serious a matter. But to a large number of small stockholders and persons living on the income of modest investments this is a real and serious injustice. There is no practicable way of correcting it where corporate incomes are taxed in lieu of taxing individuals upon their dividends. It has been ignored in our law.

The remedy is to cease taxing corporations upon their income and to include dividends in the taxable income of individuals. Each individual then receives the personal exemption to which he is entitled.

2. Progression makes it impossible to treat individuals and corporations alike. A progressive income tax on corporations would be meaningless. The whole idea of progression is to reach the tax-paying ability of the individual, taxing the recipients of the larger incomes at successively higher rates. But there is no relation between the size of a corporation's income and the incomes of its several stockholders. A large corporation may be owned by many small stockholders, while a relatively small corporation may be the property of a single wealthy individual. Progression must relate to individual incomes.

This is accomplished roughly in our law by taxing corporations 10 per cent upon their net income (less excess profits taxes and other credits), exempting dividends from the normal rate of the personal income tax, and subjecting dividends to the surtaxes. This is clumsy and only partially effective. The simplest solution is to cease entirely the taxation of corporate income and to include all dividends in personal income.

The fact is that our present tax laws deny to many of the most needy taxpayers the personal exemptions to which the spirit of the law entitles them. They also fall far short of carrying out the principle of progressive taxation. These shortcomings have been

accepted for the sake of a partial application of the principle of stoppage at source with respect to corporate income. Stoppage at source is no longer the fetish that it was a generation ago. Experience has taught us that it has incidental results which are anything but pleasing. The "tax-free covenant" has made trouble in connection with interest on bonds. The best opinion today would reduce stoppage at source to the minimum. Thus the carefully drawn income tax of New York specifically forbids any person to contract to pay the income tax of another. Stoppage at source, even with its recognized administrative advantages, is not a sufficient excuse for the inequalities of our existing tax laws. Most of the advantages of stoppage at source may be retained by requiring "information at the source."

My first suggestion then is to give up the income tax on corporations and to include dividends in individual incomes subject to both normal and surtaxes. This does away completely with the present injustice, as to both the personal exemption and the progressive rates.

This proposition has many other advantages, of which space permits only the mention. It makes the income tax a strictly personal tax. It does away with the false idea of tax-free investments. The taxpayer knows he is taxed. This is good for the taxpayer. It is also good for the state of public opinion, since it removes the public irritation caused by the spectacle of large classes of income exempt (supposedly) from taxation. It brings home to the individual his direct interest in economy of government expenditure and his responsibility for the conduct of government finances. The same arguments apply, of course, to the taxation of interest on bonds. The mistakes already made as to the tax-free covenant should be avoided in future.

Again this change would make corporate stocks a more attractive investment for persons of modest incomes and for estates and trusts held in the interest of such persons. Relief from the income tax would ultimately enable corporations to pay higher dividends, which in the hands of the stockholder would enjoy the benefit of the personal exemption.

For many reasons then, it is desirable that the income tax be made a strictly personal tax, not applying to corporations. But now comes a difficulty on account of the undistributed income of corporations. Under our individual income tax the income of individuals and partnerships is taxable, regardless of whether part

or all of such income is left in the business from which it came. If, as proposed, we should cease taking corporate incomes, the undistributed part of corporation earnings would go untaxed. (I am disregarding for the present the excess profits tax.) The proposed plan then would work equality only when all corporate earnings were distributed in dividends. Undistributed corporate earnings would be favored. For example, suppose *A* and *B* are in the same kind of business, *A* as an individual, *B* incorporated. Each business yields $10,000 net earnings, of which it is found wise to put $6,000 back into surplus. *A* pays income tax on the whole $10,000; his tax (allowing $2,000 personal exemption) being $590. *B* pays personal income tax on only the $4,000 received in dividends; his tax (allowing $2,000 personal exemption) is $80. If the corporation pays no income tax, this is his total tax liability, as compared with $590 for *A*. The difference is due, of course, to the fact that the incorporated business pays no tax on its undistributed earnings. The difference is intensified by the incidental result of putting *B* in a lower bracket for the personal income tax. He pays the 4 per cent normal rate and no surtax. *A* pays 8 per cent normal tax on part of his income and he also pays surtaxes. Again, take the case of *C*, a shareholder in a large corporation. His share of its earnings is $10,000, of which he receives $4,000 in dividends, subject to income tax. But the $6,000 held back for him by the corporation would not be taxed. His income tax is $80, as compared with *A*'s $590.

Clearly there would be here an unjust discrimination in favor of corporate investment, as against the individual business or partnership. It can be corrected by some form of tax upon the undistributed earnings of corporations.

Should undistributed earnings be taxed? There is a good argument for not regarding savings as taxable income. According to this theory, all undistributed earnings, being savings, would be untaxed. But this exemption, if granted at all, should be granted to individuals as well as to corporations. Actually this is not the theory of the United States income tax. All individual and partnership earnings are taxed, even though partly put back in the business or otherwise saved. It is not fair to allow the incorporated business to hold undistributed earnings free of tax. Hence some tax on undistributed corporation earnings is needed. This is recognized in a rough sort of way by the present excess profits tax. It is doubtless this idea that has been at the bottom of the

popular irritation at the decision in the stock dividend case, a decision which was undoubtedly correct from every possible view-point of theory or practical equity, but which has led people to feel that there ought to be some means of taxing the undistributed earnings of corporations. This popular notion is in harmony with the fundamental theory of our income tax, which it is not proposed to change. A tax on the undistributed earnings of corporations is reasonable. It would remove the chief obstacle in the way of making the income tax a strictly personal tax.

But what of the excess profits tax? Can it be relied upon as a means of taxing the undistributed income of corporations? In a measure it does perform this function at present. But it does it only in the roughest sort of way, in some cases taking an excessive toll from the incorporated business, in other cases falling far short of an adequate tax on undistributed income. In fact the whole spirit and purpose of the excess profits tax is out of harmony with the plan here proposed. Much of the opposition to the excess profits tax is due, I am convinced, to the purposes for which it is conceived to exist, among which may be mentioned the following:

1. The excess profits tax is looked upon as a device for penalizing excessive or improper profits. There is no excuse for such a purpose. If there are profits which should be prevented by law, the law should go about the business directly, not by means of a tax which falls upon the just and the unjust.

2. A tax upon abnormal profits due to special war conditions was justified during the war. Money inflation, government demands, competitive demands of other nations; these and other circumstances gave extraordinary profits to fortunate manufacturers and dealers. It was right for the government to seek a large share of such abnormal war profits. This justification of the excess profits tax ceases with the termination of war conditions.

3. There is a notion on the part of some that there should be a tax upon abnormal profits in general; that is, profits above the supposed normal level. This, I believe, is a mistake. As the term is popularly understood there is no such thing as a normal rate of profits. Profits vary greatly between different kinds of enterprise. All business is speculative, some more, some less. The normal rate of profits, so far as it really exists, is an average rate. In certain years the profits must be higher than such average, in order to offset the years when profits are small or zero. Even

this average is different in different lines of industry. If profits above the "normal" are to be in large part denied, capital cannot take the chances of small profits or losses. Large profits indicate large tax-paying ability and should be treated accordingly. Beyond this, competitive business conditions may be relied upon to take care of the abnormal profits.

4. The excess profits tax is looked upon as a special burden upon corporations as compared with partnerships and individuals, and so far as it is such it is quite rightly condemned.

It is time, I think, to discard all such notions of the purposes to be secured by taxation of corporate profits and to take a fresh start upon the basis of the personal obligation of each citizen to pay taxes according to his ability. What we want is a fair and practicable tax on undistributed corporate income. The excess profits tax is not adapted to the purposes though it has some features worthy of retention. We must seek something better in the way of a tax on undistributed earnings.[1]

In constructing the tax on undistributed earnings, I believe the following principles should govern:

1. The purpose of the tax on corporate undistributed income should be (a) to produce justice as between individuals and partnerships and investors in corporations, and (b) to secure to the government a fair revenue from such undistributed earnings.

2. The purpose should *not* be to force distribution of corporation earnings, or to penalize the putting of earnings back into the business. The purpose to do this, as contained in many current schemes, is bad policy. Tax laws should interfere no more than necessary with the exercise of the best business judgment. But the tax should seek to prevent deferring dividends for the sake of avoiding taxation.

3. Individuals and partnerships pay income tax on all undistributed income. The purpose should be to secure so far as possible equal treatment of corporation undistributed income. Exact equality is of course out of the question. There must be general rules affecting all corporations, regardless of the personal situation of their individual stockholders. The method must be some-

[1] I make no attempt to discuss the many defects of the excess profits tax. That task has been ably performed by others. See in particular Professor Plehn's article in the AMERICAN ECONOMIC REVIEW of June, 1920, pp. 283-298 and the series of articles by Professor T. S. Adams in the *New York Evening Post*, July 19-August 18, 1920.

what arbitrary, seeking a fair compromise between small and large stockholders, and making every possible allowance for the small business in the form of the close or family corporation.

4. All undistributed income should pay at least the normal or lowest rate of the individual income tax. No individual (or partnership) can escape at least that much tax. It is true that the individual has the personal exemption. But this can hardly apply to the undistributed income of his business. If he has no other income, he will ordinarily have to take out of his business at least $1,000 or $2,000 to live on. This will use up his personal exemption, and all his undistributed income will be taxed. If he has other income to live on, the personal exemption will come out of that, and his business income will be taxed even though all remain in the business. Corporations should therefore be taxed on all undistributed income at least at the normal or lowest rate of the personal income tax.

5. Only a small part of corporate undistributed income should be taxed at this lowest rate. The majority of stockholders have incomes large enough to subject them to higher rates or surtaxes. If conducting business as individuals or partnerships, their undistributed income would be subject to these higher rates. In taxing corporations we must consider the average condition of the stockholders. Hence higher rates than the lowest should generally apply. Otherwise corporation investors would be favored above individuals and partnerships. I shall return later to the discussion of that part of undistributed income taxed at the lowest rate.

6. Determination of the rate of the tax on undistributed income is bound to be somewhat arbitrary, and various plans may be advocated. Some would tax all such earnings at a certain flat rate. This is distinctly arbitrary, though it has the great advantage of simplicity. The plan which I propose sacrifices something on the side of simplicity, but gains much on the side of equity. Opinions will doubtless differ as to the balance of gain or loss, but the plan is one which I believe at least deserves careful consideration. I would propose that all corporate undistributed income (except the small part taxed at the lowest rate) be taxed at progressive rates, by a double scheme of progression.

a. Rates should be progressive according to the ratio of undistributed income to invested capital. As stated, the purpose is to tax fairly undistributed earnings, without forcing distribution but at the same time penalizing the withholding of dividends to escape

taxes. In general, the amount of earnings that ought wisely to be put back in the business is related to the size of the business. A business with $100,000 capital would not need to put back so much as one with $100,000,000 invested. Roughly, the amount that should be put back will be in proportion to the capital already invested. In general, the higher the ratio undistributed, the more warranted is the suspicion that the purpose is to escape taxation. Earnings amounting to a reasonable ratio of invested capital should be allowed to remain undistributed upon payment of a moderate tax. Above that ratio, the tax should be at progressive rates increasing with the increase in the ratio of undistributed earnings to invested capital. For example, undistributed earnings up to 10 per cent of invested capital might be taxed 10 per cent (the rate of the present corporation income tax) with progressive rates above that ratio.

b. While in general, as has been stated, the amount of earnings that should wisely be held undistributed may be said to depend mainly upon the amount of invested capital, it is true that the application of this rule varies somewhat with the size of the corporation. For a large corporation having $100,000,000 invested capital and earnings of $20,000,000, $10,000,000 (10 per cent of capital) might be an ample addition to surplus. A small corporation of $20,000 invested capital, earning $10,000, might quite properly want to add $5,000 to surplus, which would be 25 per cent of its invested capital. It is reasonable therefore to make some concession to the smaller corporations, which could be done by making the rates of the tax on undistributed income progressive also with respect to the amount of the invested capital.

The following scheme of rates is therefore suggested, based on the assumption that corporations pay no income or excess profits tax, and that the present personal income tax remains as it is except that dividends are included in taxable income. While their main purpose is to illustrate the principle, these particular figures have been chosen with the idea of corresponding as closely as possible with the purposes stated.

7. As already indicated, a certain small part of the undistributed earnings of every corporation should be taxed at the lowest normal rate of the personal income tax. This lowest rate should be imposed where necessary to avoid unjust taxation of the small close or family corporation as compared with the small business conducted as an individual enterprise or partnership. In a

Invested capital	Ratio of undistributed earnings to invested capital (per cent)				
	Over — Not over 10	10 30	30 50	50 75	75 —
Not in excess of $100,000	10	15	20	25	30
Over $100,000 and not over $1,000,000......	10	20	30	40	50
Over $1,000,000 and not over $10,000,000......	10	25	40	50	50
Over $10,000,000.........	10	30	50	50	50

small individual business with net earnings not in excess of $5,000, the owner pays personal income tax at the lowest normal rate (4 per cent) and pays no surtax. If such a business were incorporated, it ought not to be taxed at a higher rate (such as 10 per cent). This difficulty can be met by allowing the first $5,000 of undistributed income of any corporation to be taxed at the lowest normal rate (4 per cent at present).

The result would be equality between the individual and the close corporation so long as net earnings were not greater than $5,000, and no matter what part of earnings were distributed. For example, assume *A* has an unincorporated business, while *B* has a similar business incorporated, each business yielding net earnings of $5,000. Assume each is entitled to the $2,000 personal exemption, taken out of the business earnings. If they have other income, that does not concern us here. Suppose in each case $3,000 is distributed, $2,000 undistributed. The result in the two cases would be as follows:

	Income taxable personally	Undistributed earnings taxable to corporation	Personal income tax	Corporation tax	Total tax
A (individual)	$5,000	$0	$120	$0	$120
B (corporation)	3,000	2,000	40	80	120

Obviously it makes no difference what part of the earnings is undistributed. The individual is taxable on all earnings, regardless of distribution. The corporation's earnings are all taxed either to the corporation or the owner. The only exception is the case where the corporation distributes less than the owner's personal exemption, the owner having no other taxable income. In this case he loses, because he is deprived of part of his personal exemption. As already stated, this case is too rare to be of importance.

We thus take care of the small corporation whose stock is owned (practically) by one person. The same provision would equalize between the small corporation and the partnership, so long as each partner's net earnings were not over $5,000 (the point at which the surtax begins) and the undistributed earnings of the corporation were not over $5,000 (the amount taxable at the low rate). For example, suppose *A* and *B* share equally in a partnership; *C* and *D* own each half the stock of a corporation. Each business has net earnings of $10,000 of which $5,000 is undistributed. *A* and *B* are each taxed upon $5,000 income, the tax being $120. *C* and *D* are taxed each upon $2,500 of dividends, the tax being $20. Their corporation is taxed 4 per cent on $5,000 undistributed earnings, *i.e.*, $200, adding $100 each to the tax liability of *C* and *D*. The result is exact equality, and it obviously makes no difference what part of the corporation's earnings (up to $5,000) is undistributed. There is the same unimportant exception as in the case of the corporation owned by one individual; *i.e.*, when the dividend to each stockholder is less than his personal exemption, and he has no other taxable income.

Thus far we have considered cases where the net earnings of the individual or partner were not over $5,000. If net earnings are in excess of $5,000, there may be an advantage to the small incorporated business which does not hold more than $5,000 of its earnings undistributed. The individual or partner, whose earnings exceed $5,000, begins to pay surtax, and above $6,000 his normal rate is 8 per cent, even though part of his earnings are undistributed. The owner of the corporation can have his taxable personal income (dividends) reduced by the undistributed earnings of the corporation and so fall into a lower bracket for the income tax.

This discrepancy in favor of the incorporated business is not serious. It is a maximum where exactly $5,000 is undistributed. If less is undistributed the difference between the corporation and the individual or partnership becomes continually less, till equality is reached where all earnings are distributed. If more than $5,000 is undistributed, the higher tax rates would apply to the corporation. Furthermore, all of this discussion applies only to the smaller corporations. The large corporations have many stockholders; to take account of their individual circumstances is impracticable, and the small matter of $5,000 taxed at a low rate becomes immaterial.

By permitting an amount of undistributed earnings up to $5,000 to be taxed at the lowest rate, substantial justice is secured between the small close or family corporation and the corresponding individual enterprise or partnership. Discrimination still remains between the small investor in the stock of a large corporation and the small individual business man or partner. Corporate undistributed earnings will generally be taxed 10 per cent or more (the small sum of $5,000 taxable at the lower rate is insignificant when divided among the shareholders of a large corporation), while the small individual business man or partner gets a lower rate. This is not regarded as a serious evil. It simply means that, so far as undistributed earnings are concerned, "unearned incomes" are in certain cases taxed more heavily than "earned incomes," a principle which is generally regarded as sound.

The wealthy man, on the other hand, has the opportunity to reduce his tax burden on undistributed earnings by corporate investment, as compared with what he would pay upon such earnings in an individual business or partnership. This is because the rates proposed for the tax upon undistributed corporation earnings do not go so high as the personal income tax rates in the present law. The rates proposed are, as stated, a compromise; they could not be made much higher without serious injustice to the many small investors in large corporations. Such discriminations are unavoidable, so long as corporations are taxed as such, without regard to the circumstances of their individual shareholders. It is believed that the rates proposed are on the whole reasonably just to all classes of stockholders.

Furthermore, the favor thus shown the wealthy man is more apparent than real. The reason he gains more than the poor man from incorporating his business lies in the very high rates of the personal income tax upon large incomes. The plan proposed offers no opportunity to the rich man to pay taxes at a lower rate than the poor man. It simply shows him a way to come down a little from his own high rates and approach nearer to the poor man's rate. The rich man is still taxed at a much higher rate than the poor man. And since incorporation is always open to the large business man, it is not likely that any great injustice is done those who voluntarily decline to incorporate. Indeed too much reliance should not be put on the very high rates of the income tax on the largest incomes. It is well known that (through

investment in tax-free securities and otherwise) these highest rates are very commonly evaded. There is no possible way of making a tax upon corporations affect all stockholders the same as though all earnings were personal. The plan here proposed actually goes much farther in the direction of individual justice than the present system of personal income and corporation taxes.

There is every reason for a reduction in the present high surtaxes on individual incomes. If this should be accomplished, either directly by a lowering of rates or indirectly by a special rate on savings as suggested by Professor T. S. Adams,[3] the result would tend to remove the unequality between corporate and unincorporated business in the plan here proposed.

Instead of granting a low rate on the first $5,000 of corporate undistributed income, justice could be rendered the owners of small close corporations in another way. The law might permit any corporation to elect to be treated like a partnership. This requires simply the calculation of each stockholder's distributive share of the corporation's net income, which share (whether distributed or not) is then taxed to the stockholder as personal income. The corporation would be untaxed. This option, when accepted, would produce absolute equality between such stockholders and individuals and partners. This arrangement would be quite simple and would effectively prevent any injustice to the small or closely held incorporated business. It has some advantages over the plan first suggested.

The foregoing suggestions may be summarized as follows:

1. Retain the present individual income tax, with such revision of rates and other details as may be advisable.

2. Give up the income tax upon corporations, and include all dividends in personal income, subject to the individual income tax. Require of corporations all necessary information as to dividends paid.

3. Interest on bonds and notes should be treated, so far as possible, as personal income, subject to individual income tax.

4. Give up the excess profits tax.

5. Introduce a tax upon the undistributed income of corporations; the first $5,000 of undistributed income of each corporation taxed at the normal or lowest rate of the personal income tax (4 per cent as at present); above that, undistributed income

[3] See the series of articles by Professor T. S. Adams in the *New York Evening Post*, July 19-August 18, 1920.

taxed at progressive rates with respect to (a) the amount of the corporation's invested capital and (b) the ratio of undistributed earnings to invested capital.

I believe that this plan offers a fair substitute for the present corporation income and excess profits taxes and that it would accomplish the purpose of reasonable revenue to the government and justice to the various classes of taxpayers, without interfering more than is necessary with the wisest management of business by the directors of corporations.

The only serious weaknesses of this plan are those which arise from the necessity of determining the "invested capital" of corporations. Objection will be made to this feature both on practical and on theoretical grounds. From the practical side of administration it will be said that this requirement is one of the most undesirable features of the present excess profits tax. Many have expressed the hope that it might disappear with the repeal of the excess profits tax. That the legal determination of invested capital is complicated and annoying cannot be denied. That it should now be given up is not so certain. The worst stage has been passed. Putting the new device into operation, in the midst of the disturbances incident to war, was a tremendous task. Continuing its operation in time of peace is a matter of less and steadily diminishing difficulty. It is at least open to question whether the progress already made should now be given up. If the most equitable taxation of corporations should seem to require the determination of invested capital, it is reasonable to suggest that the advantage gained may fully compensate for the admitted objections on the administrative side.

There is also a serious theoretical difficulty. If by "invested capital" is understood the value of invested capital, then the whole procedure involves a logical fallacy. The value of any investment depends upon its earnings—its expected future earnings. (Past earnings are of importance only as an indication of what is to be expected in the future.) Logically, we can tax earnings, or we can tax capital; in the first case, we measure earnings objectively without reference to the value of the capital; in the case of capital we must likewise have some objective indication of value, such as records of sales. But if it is proposed to make a tax on earnings depend on the value of invested capital, which itself depends on the amount of the earnings (which are to be substantially reduced by the very tax itself), we are involved in circular reason-

ing. Such a procedure, to be logical, requires that there be some measure of the value of invested capital independent of the earnings. But there is no such independent measure.

The way to avoid this dilemma is to abandon the whole idea of using the *value* of invested capital, and adopt frankly the basis of *cost* of investment. The basis should be what the investors have put in the business and retained there. This will be found, I believe, to agree with the best accounting theory and practice. By this method we avoid the whole matter of price changes, which makes an almost hopeless tangle of the value basis. We take account only of what the investors have actually put in and taken out at the prices actually prevailing in each instance. We do not have to find the value of past investment at present-day prices. This may be somewhat arbitrary and may appear to disregard exact justice between corporations, but any such shortcoming is overwhelmingly offset by the gain in administrative certainty and theoretical correctness.[8] In the main this agrees with the method of determining invested capital in the present law, though the question might be raised whether it is better to take some arbitrary date for the starting point in case of established businesses, as is now done in determining depreciation, or to go back over the whole history of the corporation's investment, as at present in determining invested capital. This question should be answered on the basis of administrative simplicity.

It is imperative that the federal tax system be reorganized without delay. In this reorganization the first step should be to put the taxation of individual incomes and corporate profits upon a logical and equitable basis. After this must come the discovery of such other sources of revenue as may be necessary to balance the budget. The foregoing suggestions are offered in the hope that they may help in some degree to light the path for this first step.

FRED ROGERS FAIRCHILD.

Yale University.

[8] I think this interpretation of invested capital meets the point raised by Professor Plehn in the AMERICAN ECONOMIC REVIEW of June, 1920, page 292.

REVIEWS AND NEW BOOKS

General Works, Theory and Its History

NEW BOOKS

Carver, T. N. *Elementary economics.* (Boston: Ginn. 1920.)

Cunnison, J. *Economics.* (New York: Dutton. 1920.)

Dealey, J. Q. *Sociology, its development and application.* (New York: Appleton. 1920.)

Dechesne, L. *Economie industrielle et sociale. Economie géographique. Economie coloniale.* (Liége: Joseph Wykmans. 1920. Pp. 105; 287; 237.)

Dole, C. F. *Economics for upper grades.* (Boston: Heath. 1920. Pp. 93.)

A simple and clear statement, in less than one hundred pages, of fundamental economic concepts; for use in secondary schools.

Dow, G. S. *Introduction to the principles of sociology.* (Waco, Texas: Baylor Univ. Press. 1920. Pp. 505.)

Friday, D. *Profits, wages, and prices.* (New York: Harcourt, Brace & Howe. 1920. Pp. iv, 256.)

To be reviewed.

Gelesnoff, W. *Grundzüge der Volkswirtschaftslehre.* Translated from the Russian by E. Altschul. (Leipzig: Teubner. 1920. Pp. xi, 613. 10 M.)

Guenther, A. *Rückkehr zur Weltwirtschaft.* (Munich: Duncker & Humblot. 1919. Pp. 148.)

Hamilton, W. H. *Exercises in current economics.* Second edition. (Chicago: Univ. Chicago Press. 1920. Pp. 106. 75c.)

Harms, B. *Volkswirtschaft und Weltwirtschaft.* (Stuttgart: Enke. 1920. Pp. xv, 495. 56 M.)

Jones, J. H. *Social economics.* (London: Methuen. 1920. Pp. x, 239. 6s.)

Kirkaldy, A. W. *Wealth: its production and distribution.* (New York: Dutton. 1920.)

Laughlin, J. L. *The elements of political economy, with some applications to questions of the day.* Revised edition. (New York: Am. Bk. Co. 1920. Pp. xxx, 386. $1.40.)

Lewis, P. G. *Constructive economics.* Second supplement to book "Solution." (Milwaukee: Pabst Pub. Co. 1920. Pp. 65.)

Milnes, A. *Economics for today. An elementary view.* (London: Dent. 1920. Pp. 256. 8s. 6d.)

Montagne, J. *Le capital.* (Paris: Albin Michel. 1920.)

OCH, J. *A primer of political economy in catechism form.* (Columbus, O.: Josephinum Press. 1920. Pp. viii, 170.)

Published as a "general survey of the science of political economy as it is taught in the Pontifical College Josephinum," in Columbus, Ohio. Certain topics, as money, land questions, and problems of distribution, are omitted, it being the author's intention to cover the cycle of social sciences in succeeding volumes. The matter is presented in the form of questions and answers.

PARK, R. E. and BURGESS, E. W. *Introduction to the study of sociology.* (Chicago: Univ. Chicago Press. 1920. $4.50.)

VON PHILIPPOVICH, E. *Grundriss der politischen Oekonomie.* Vol. 2, *Volkswirtschaftspolitik.* (Tübingen: J. C. B. Mohr. 1919. Pp. x, 459. 12 M.)

RAWIE, H. C. *Science of value; solving it.* (Baltimore: Williams & Wilkins. 1920. Pp. 98. $1.50.)

ROSS, E. A. *The principles of sociology.* (New York: Century Co. 1920. Pp. xviii, 708. $4.)

TAWNEY, R. H. *The acquisitive society.* (New York: Harcourt, Brace, & Howe. 1920.)

TIRAZIAN, A. *Zur Kritik der Böhm-Bawerk'schen Kapitaltheorie.* (Innsbruck: Wagner'schen Universitäts-Buchdruckerei. 1920. Pp. 151.)

WILLIAMS, J. M. *The foundation of social science.* (New York: Knopf. 1920.)

WITHERS, H. *The case for capitalism.* (New York: Dutton. 1920. Pp. 255.)

Economic History and Geography

An Economic History of Rome. By TENNEY FRANK. (Baltimore: Johns Hopkins Press. 1920. Pp. xi, 310. $2.50.)

A distinctively American *motiv* runs through this book from beginning to end. It appears on page 62 when Professor Frank is discussing the Roman colonization of Italy: "The constant availability of good lands which the state desired to have occupied against possible encroachment always attracted men and capital not otherwise occupied. Thus the Romans felt no incentive to try new enterprises, to develop industries or to enter commerce on land or sea. During this period of expansion Rome almost isolated herself from transmarine influences." It reappears on page 110 when he is explaining the lack of interest on the part of Rome's government in the commercial opportunities of the Mediterranean world which it was conquering. It comes boldly out

on page 221 when, in dealing with the alleged disinclination of Roman farmers to migrate into the territories annexed during the second century B.C. beyond the frontiers of Italy, he reviews the earlier economic development, concluding with the affirmation that what resulted was "a situation that reminds one strongly of the opening of the American frontiers, which permitted our once flourishing merchant marine to decay and temporarily stemmed the current of New England industries." This parallel, like all historical parallels, needs reservations; but in the main the analogy is sound, and it furnishes a large constructive idea that makes Professor Frank's book an American book. The one economic sphere in which the Romans dominated their political acquisitions was the agrarian sphere; and, as Professor Frank shows conclusively, this was far and away their most important economic sphere—as, indeed, it was in the world generally before the Industrial Revolution.

It is, therefore, as our author remarks, "rather surprising that we never hear of laws to protect Roman farm produce," particularly when one has used the lack of governmental intervention on behalf of Roman merchants as evidence for the insignificance of their interests. But the weighty observation is entered that "it was difficult to secure common action on the part of the farmers. Being without ready means of transportation, they had to consider the advantages of the market nearest at hand, and thus this group readily split into various diverse factions, each moved by different interests." Even more important, however, in this connection is the fact that, once Rome transcended the narrow geographical limits of a city-state, she was incompetent, without modern communications, of organizing in any sense the public opinion of her citizens. Hence the Senate became irresponsible, and sought, subject to the imperative necessity of preserving its own domination in the world by the requisite political and military action, to promote the economic interests of its own class. How a conflict between corporate and individual interests thence arose, the one demanding the strengthening of the Italian peasantry, the other the solvency of the plantation; the one demanding the control of the public service syndicates, the other participation in their magnified profits, is an old story.

Professor Frank does not like telling old stories. He not only denies the magnitude of the private interests engaged in public contracts, pointing out that at the time when the landed property

of the 320,000 citizens was worth $1,000,000,000, the total revenue of Rome—of which, to be sure, the most went through the hands of contractors both during and after its collection—was less than $10,000,000 annually; but he cites statistics and argues at length to prove that the Romans, like the Turks (though he does not adduce this most instructive parallel) left the commerce and industry of their city, peninsula, and empire almost exclusively to aliens and freedmen, with the immediate result that neither the government nor the governing society ever gave serious thought to the needs of business and the more serious result that, at the same time that slaves replaced the small farmers in the country, ex-slaves came so to outnumber the old Roman stock in Rome that "nearly 90 per cent of the population permanently resident at Rome in the Empire bore the taint of foreign extraction." Since, then, the armies after 100 B.C. were recruited mainly from the proletariat, the colonies founded of veterans by Sulla, Caesar, the Triumvirs, and Augustus, while they upset temporarily the régime of big estates in Italy, served in the long run merely to spread the aliens throughout the peninsula; and since the aliens were mainly Orientals "the whole of Italy as well as the Romanized portions of Gaul and Spain were during the Empire dominated in blood by the East" (p. 162).

Novel and startling conclusions these! They are based fundamentally on a census of the Roman graveyards taken by Professor Frank himself with the aid of the inscriptions on the tombstones and published in the *American Historical Review* for 1916. The subject is one that requires further investigation. To me it seems doubtful if the statistics used have enough that is not chance in them to bear the weight of such far-reaching inferences. The Italy that Rome conquered was, of course, a patchwork of stocks, and the *civitas* that Cicero canvassed was naturally, as his brother says, *ex nationum conventu constituta.* The soldiers who entered the revolutionary armies were, indeed, without a property interest in the state, but may they not have been what they were and yet come in large part from the farms of Italy? The strict inference from nomenclature is to the effect that the freedman was ordinarily a Greek—whatever that may signify; so that, if the conclusion of Professor Frank is accepted, we should, perhaps, speak of the Hellenization rather than of the Orientalizing of the West. But it seems odd that if 90 per cent of the population of Rome were Hellenistic the supremacy of Latin in Italy and its

colonies should have been unchallenged. There must be some disturbing factor in the statistics, though I cannot say what it is, unless it be that the headstones of the slaves, aliens, and freedmen, being poorer, have been less subject to destruction, or that through their corporate organizations these elements were disproportionately articulate on their tombstones if not elsewhere.

The supplanting of the Roman and Italic stock by the issue of slaves is, then, another constructive idea on which Professor Frank forms his book. It, too, it is needless to say, may envisage an American situation.

A third *leitmotiv* is the doctrine of the exhaustion of the soil by the prolonged planting of the same crop, a doctrine of which Professor Frank makes much (too much, I think) without mentioning, however, either Simkhovitch or Liebig. It was soil-exhaustion, he claims, which constrained the Latins in the fourth century B.C. "to exchange old lands for new" and which forced the farmers of Italy in the second century B.C. to substitute pastures and orchards for grainfields. The Romans were hard farmers who tended to overwork the land wherever they went and who came to grief only when they had no longer virgin soil on which to move.

But, as Professor Frank properly says, "land-exhaustion is always a relative term." Why then, we ask, should Latium have been exhausted in the fifth century B.C. while Campania and the rest of Italy were not? Professor Frank has his answer ready, and it is one which geologists alone can evaluate. It is because Latium was of uniquely late volcanic formation with an exceptionally thin soil. "The last masses of volcanic ash," he affirms, following Verri (*Origine e Trasformazione della Campagna*), "probably postdate the pyramids of Egypt." Besides, Latium was deforested at an early date (though not, we remark, till the exodus from it was well under way), so that despite most extraordinary efforts to hold the soil in place, the cultivable areas were gradually reduced and the rainfall turned from a beneficent into both an inadequate and malevolent agent.

It seems a paradox that the most expert farmers of antiquity (for that the Romans were such, readers of Cato, Varro, Virgil, Mela, and Columella can hardly doubt) should have ruined the lands they cultivated most expeditiously. But let that pass. The more serious thing is that the over-accelerated exhaustion of the soil of Latium, Italy, and the Roman West in turn is a matter of

inference from its alleged consequences—consequences that are attributed by orthodox historians to other causes deemed adequate.

Among the best features of Professor Frank's book, which is characterized throughout by knowledge, precision of statement, and acuteness of observation, as well as by vigor of style and vitality of thought, is the skill with which he has utilized the archaeological sources of information. This is shown especially in the two chapters (XI and XII) devoted to Industry at the End of the Republic. In the first, the conditions that prevailed in the making and marketing of red glazed pottery, clay lamps, glass, metal ware (iron and bronze), water pipes, and jewelry are discussed with a view to ascertaining what it is that now permits and now prevents the development of a factory producing either for a large city or for a large area. In the second, a typical block in the commercial section of Pompeii is analyzed and the social position and business methods of its residents are established. Important data are thereby won to validate the mediating doctrine that cost of transportation then, as thereafter till the nineteenth century, limited the content of international commerce to military supplies and indispensable food products for great cities and to articles of large value in small bulk. The question as to whether the individual city or the entire empire was a single economic unit is shown to depend upon the commodity concerned, but the final inference is unavoidable that the *polis* or municipality furnished its inhabitants with the great bulk of their goods. It seems to the reviewer that the author is not at all times mindful of this, his own conclusion, and argues occasionally regarding prices as if the entire Mediterranean basin responded everywhere equally to economic stimuli.

And, if I may end this notice of a book that is superior to anything in its field in any language with a further criticism, it is this, that Professor Frank is unjust in his thought to the Hellenistic age. He seems not to appreciate what it means that Hieron of Syracuse built a freight and passenger ship of 4,000 tons burden. To characterize the one epoch in antiquity in which men were making discoveries in pure and applied science comparable with those which have permitted in modern times both the commercial and industrial centralization of vast territories and the application of liberal principles to their government as "the dreary days of the third century when Greece was slowly dwind-

ling to futility" is to subscribe to a prejudice that is hoary without being venerable.

W. S. Ferguson.

Harvard College.

Economic Statesmanship; the Great Industrial and Financial Problems Arising from the War. By J. Ellis Barker. Second edition containing ten additional chapters. (New York: E. P. Dutton & Company. 1920. Pp. xii, 613. $7.00.)

This book is more accurately described as a collection of chapters than as a coherent exposition of a single theme, for its different parts were written, and most of them published, as separate essays. The descriptive part of the volume is a statistical discussion of the economic conditions of various nations, an estimate of their comparative productive capacities in certain staple lines, and an analysis of the major problems, economic and political, which confront their peoples during the period of reconstruction. Separate chapters are devoted to France, Italy, Japan, Russia, and the United States, treating of the achievements and prospects of these nations both as individuals and in comparison with the conditions peculiar to Great Britain. The chief concern of the book, however, is with British problems of economic and political welfare; ten of the twenty-five chapters are employed exclusively in developing this subject, and the apparent intent of the author in widening the scope of his inquiry to include other nations is to use the conclusions of his study as an example and a warning to British statesmen in their efforts to grapple with the problems of domestic reconstruction. The descriptive and analytical features of the book are admirable; they contain a wealth of economic facts condensed in statistical form and ably presented to the reader, retaining his interest throughout with no sacrifice of accuracy and precision of detail.

Mr. Barker does not succeed so well in the development of the theoretical features of his book. His purpose is to disclose the sources of national power and to deduce from his analysis of the economic achievements of modern nations the policies upon which the future greatness of the British Empire must depend. The power of the state, he concludes, rests upon economic efficiency: "numbers and wealth are the main pillars of nations; they are the foundations of national greatness and independence" (p. 517).

Population, however, is ultimately derived from wealth and especially from certain peculiar forms of wealth—essential raw materials, among which coal and iron hold a preëminent place. A decline in the production of these essential materials would be destructive of Great Britain's imperial power (p. 455); to maintain their production, as well as the supply of all other forms of wealth, increased efficiency of labor and capital is demanded. But viewed in the light of these prerequisites of national greatness, Britain's present position is gloomy and her future prospect filled with portentous forebodings. Her coal and iron production is dwindling; her railways service is "the most inefficient in the world" (p. 460): in the field of manufacture, there is a "startling inferiority of England's industrial output" (p. 123). Mr. Barker charges all these evils to defect of policy, or, rather, to lack of policy, under the ruinous domination of laissez faire. English economic theory, the "unnational, cosmopolitan" theory of Adam Smith, Ricardo, and the Manchester School, which disregards the existence of States and exalts the well-being of the individual, has tyrannized over the processes of government and prostituted the agencies of the State to the benefit of "capitalists, traders and other non-producers." Economic liberty exploits and destroys, by the spoilation and waste of her natural resources, the political power of a nation, while non-producing capitalists and middlemen flourish (pp. 58-59). The thesis of Mr. Barker's book is a statistical demonstration of the ruin caused by laissez faire and a demand for the reversal of this policy, for a purposeful direction of the nation's energies under centralized control toward the goal of national aggrandizement.

It will be a surprise to American readers to discover that Mr. Barker relies for proof of the virtues of nationalism upon the record of the United States. In every aspect of his subject, the author finds reason to bestow unreserved praise upon America: she has revolutionized agriculture; her workmen are three times as efficient as those of England; her railways are the best in the world; her enterprisers set the pace in progressive and efficient organization; the output of her mines, forests, and farms is the principal resource of the world's markets; her people excel in education, in sobriety, in foresight, in energy. All this makes pleasant reading for the American, especially in these times when the tone of so many of our own writers is one of pessimism; but it is impossible for those who have been accustomed to ascribe our

rapid industrial expansion to the unfettered individualism which has characterized our economic development, to agree with Mr. Barker that America's record is a demonstration of the virtues of nationalism as England's is of the vices of laissez faire. Indeed, the author contradicts his own interpretation of the facts when, in his concluding chapters on the Labor Problem, added apparently as an afterthought to the volume, he extols the individualism of American policy and decides that the "unprecedented economic success of the United States is largely due to their policy of giving the freest play possible to the energies of the individual and of restricting the interference of the State in economic matters to an absolute minimum" (p. 549). At this point Mr. Barker's nationalism is overwhelmed by his opposition to the doctrines of socialism. In fact, when we have balanced the inconsistencies and contradictions of his theory, the author's nationalism seems to simmer down to an advocacy of the protective tariff, in support of which he adduces without criticism the stock arguments of the American protectionists. (See chapters VIII and IX.) On the whole, despite its intention, the book can scarcely be considered a contribution to nationalistic theory since it attempts the impossible task of combining two irreconcilable tests of national greatness: great and highly centralized political power, and the economic prosperity of the average citizen.

EDGAR S. FURNISS.

Yale University.

NEW BOOKS

BERNSTEIN, E. *Wirtschaftswesen und Wirtschaftswerden. Drei gemeinverständliche Abhandlungen. 1. Die verschiedenen Formen des Wirtschaftslebens. 2. Die Grundbedingungen des Wirtschaftslebens. 3. Die Natur und die Wirkungen der kapitalistischen Wirtschaftsordnung.* New and revised edition. (Berlin: Vorwärts Buchhandlung. 1920. Pp. 112.)

BOLTON, H. E. and MARSHALL, T. M. *The colonization of North America, 1492-1783.* (New York: Macmillan. 1920. Pp. xvi, 609.)

BORGHT, R. VAN DER. *Das Wirtschaftsleben Südamerikas. Insbesondere in seinem Beziehungen zu Deutschland.* Bibliothek der "Cultura Latino-Americana," 1. (Cöthen: O. Schulze. 1919. Pp. viii, 227. 8.40 M.)

BUNGE, A. E. *Los problemos economicos del presente.* Vol. I, *Poblacion. Trabajo-Costo de la vida. Poder de compra de la moneda.*

Produccion e industrias nacionales. (Buenos-Aires. 1920. Pp. xii, 342.)

CHEYNEY, E. P. *An introduction to the industrial and social history of England.* Revised edition. (New York: Macmillan. 1920. Pp. xii, 386.)

COCHEU, T. *Pirates of finance; a plain story for plain people.* (Brooklyn, N. Y.: Author, 148 Penn St. 1920. Pp. 72.)

COLLAR, G. *An industrial and social history of England.* (New York: Pitman. 1920. Pp. 305. $1.30.)

COMERFORD, F. *The new world.* (New York: Appleton. 1920. Pp. 364. $2.)

CRANE, T. F. *Italian social customs of the sixteenth century, and their influence on the literature of Europe.* (New Haven: Yale Univ. Press. 1920. Pp. xv, 689.)

CUMMING, C. K. and PETTIT, W. W. *Russian-American relations: March, 1917-March, 1920. Compiled at the request of the League of Free Nations Association.* (New York: Harcourt, Brace & Howe. 1920. Pp. xxviii, 375.)

DANIELS, G. W. *The early English cotton industry.* (New York: Longmans. 1920. Pp. xxxi, 214. $3.25.)

A study based upon original material, including the accounts and letter books of a manufacturing firm dating back to the end of the eighteenth century. The earlier history is carefully investigated with ample footnotes to sources. The final chapters contain some unpublished letters of Samuel Crompton.

DENIS, P. *La République Argentine. La mise en valeur du pays.* (Paris: Colin. 1920.)

DU PONT, B. G. *E. I. Du Pont de Nemours and company, a history, 1802-1902.* (Boston: Houghton Mifflin. 1920. Pp. 196. $3.)

ECKEL, E. C. *Coal, iron, and war.* (New York: Holt. 1920. Pp. 375. $3.)

FISCHER, J. *Tirols Getreidepolitik von 1527 bis 1601.* (Innsbruck: Wagnersche Universitätsbuchdruckerei. 1920. Pp. 127.)

FURNISS, E. S. *The position of the laborer in a system of nationalism; a study in the labor theories of the later English mercantilists.* (Boston: Houghton Mifflin. 1920. Pp. 260. $2.)

GARBOTZ, G. *Vereinheitlichung in der Industrie.* (Munich: R. Oldenbourg. 1920. Pp. vi, 218. 9 M.)

GILLESPIE, J. E. *The influence of oversea expansion on England to 1700.* Columbia University studies in history, economics, and public law, vol. XCL, no. 1. (New York: Longmans, Green. 1920. Pp. 367. $3.)

Chapters 4, 5, 6 deal with commerce, industry and finance respectively.

Hainisch, M. *Wirtschafliche Verhältnisse Deutsch-Oesterreichs.* Schriften des Vereins für Sozialpolitik, 158. (Munich: Duncker & Humblot. 1919. Pp. 171. 7.20 M.)

Janicki, S. *Industrial reconstruction in Poland.* (London: Polish Press Bureau. 1920. Pp. 32.)

Johnson, I. A. *The Michigan fur trade.* Michigan historical publications, university series, vol. 5. (Lansing: Mich. Hist. Comm. 1919. Pp. xii, 201.)

Huth, W. *Die wirtschaftlichen Kräfte Deutsch-Oesterreichs und sein Anschluss an das Deutsche Reich.* (Berlin: Siemenroth. 1920. Pp. 119. 5 M.)

Kahn, O. H. *Our economic and other problems. A financier's point of view.* (New York: Doran. 1920. Pp. 420.)

A collection of articles and addresses among which are a sketch of the characteristics of Mr. Harriman, Strangling the Railroads, High Finance, the New York Stock Exchange, Two Years of Faulty Taxation, and Roosevelt and Business.

Kaplun-Kogan, W. W. *Russisches Wirtschaftsleben seit der Herrschaft der Bolschewiki.* (Leipzig: Teubner. 1919. Pp. xii, 266. 5 M.)

Kreiner, K. *Wirtschaftsleben im Bayrisch-Böhmischen Waldgebiete.* (Leipzig: A Deichert. 1919. Pp. 144.)

Laski, H. J. *Political thought in England from Locke to Bentham.* (New York: Holt. 1920. Pp. 323. 90c.)

Lovett, W. *Life and struggles of William Lovett in his pursuit of bread, knowledge, and freedom, with some short account of the different associations he belonged to and of the opinions he entertained.* With an introduction by R. H. Tawney. Vols. I and II. (New York: Alfred A. Knopf. 1920. Pp. xxxii, 246; 482. $1.50 each.)

A reprint of Lovett's autobiography, first published in 1876, of interest in the early history of the labor movement in England and of the Chartist movement. Mr. Tawney's introduction covers 25 pages.

McBride, I. *Barbarous soviet Russia.* (New York: T. Seltzer. 1920. Pp. 276.)

Matschoss, C. *Ein Jahrhundert Deutscher Maschinenbau, 1819-1919.* (Berlin: Springer. 1919. Pp. 271.)

Osgood, E. L. *History of industry for high school use.* (Boston: Ginn. 1920.)

Owen, R. *The life of Robert Owen by himself.* Economic reprints. (New York: Knopf. 1920. Pp. 352. $1.50.)

Reprint of Owen's autobiography which appeared in 1857.

PENTY, A. J. *A guildsman's interpretation of history.* (London: Allen & Unwin. 1920. Pp. 328. 12s. 6d.)

POGLIANI, A. *The financial, industrial, and political situation in Italy.* (New York: Equitable Trust Co. 1920.)

POOLEY, A. M. *Japan's foreign policies.* (New York: Dodd, Mead. 1920. Pp. 202. $4.)

PRATO, G. *Fatti e dottrine economiche alla vigilia del 1848. L'associazione agraria subalpina e Camillo Cavour.* (Torino: S. Giuseppe degli Artigianelli. 1920. Pp. 352.)

REEVE, S. E. *Modern economic tendencies.* (New York: Dutton. 1920.)

RENARD, G. and WEULERSSE, G. *Le travail dans l'Europe moderne.* (Paris: Alcan. 1920. Pp. 524. 12 frs.)

As in other volumes of this series (*Histoire Universelle du Travail*) which have already appeared the relations of "labor" are followed far afield, so that the book is substantially a general economic history, treating not merely production in the stricter sense of agriculture and manufactures but also internal and foreign trade, with some reflections on social organizations and public policy. The value of the book to American students lies in the fact that it covers in a work of moderate compass the economic history in the sixteenth, seventeenth, and eighteenth centuries not only of England and France, to which countries about half the work is given, but also of the other countries of Europe. The authors display the national skill in the arts of construction and exposition, and have performed a useful service in their work. C. D.

ROWE, L. S. *Early effects of the war upon the finance, commerce, and industry of Peru.* Carnegie Endowment for International Peace. Division of Economics and History. Preliminary economic studies of the war, no 17. (New York: Oxford Univ. Press. 1920. Pp. v, 60.)

RUSSELL, C. E. *The story of the Non-partisan League.* (New York: Harper. 1920. Pp. 332. $2.)

RUSSELL, G. W. *The economics of Ireland and the policy of the British government.* The Freeman pamphlets. (New York: Huebsch. 1920. Pp. 32. 25c.)

SCHMIDT-KLUGKIST, W. *Argentinien in geographischer, geschichtlicher und wirtschaftlichter Beziehung.* Parts II and III. Second, revised and enlarged edition. (Hannover: Hahn. 1919. Pp. 397.)

SCHMIDT, P. H. *Die schweizerischen Industrien im internationalen Konkurrenzkampf.* (Zurich: Art Inst. Orell Füssli. 1920. Pp. viii, 214.)

SMITH, L. B. AND OTHERS. *The economic position of Argentina during the war.* Miscellaneous series, 88. (Washington: U. S. Bureau of Foreign and Domestic Commerce. 1920. Pp. 140.)

SOMBART, W. *Die deutsche Volkswirtschaft im 19. Jahrhundert und im Anfang des 20. Jahrhunderts.* (Berlin: Bondi. 1919. Pp. xvi, 532.)

STREIT, C. K. *Where iron is, there is the fatherland!* The Freeman pamphlets. (New York: Huebsch. 1920. Pp. 52. 50c.)

Discusses the problems involved in the ownership of the Briey basin.

TERHUNE, A. P. *The industrial history of England.* (Boston: Houghton Mifflin. 1920. $5.)

WALLAS, G. *The life of Francis Place, 1771-1854.* (New York: Knopf. Pp. 415. $3.50.)

WILBUSCHEWITSCH, N. *The industrial development of Palestine.* Translated by Eden and Cedar Paul. (New York: Zionist Organization of America. 1920. Pp. 54. 60c.)

Constitutional convention bulletins. (Springfield, Ill.: Legislative Reference Bureau. 1920. Pp. 1224.)

Contains bulletins on state and local finance, eminent domain, and excess condemnation, farm tenancy and rural credits, and social and economic problems.

Dominions and foreign trade and economic conditions. 1. Reports of the Department of Overseas Trade. (London: H. M. Stationery Office. 1920. 3s.)

The economic development of the Argentine Republic in the last fifty years. (Buenos Aires: E. Tornquist & Co. 1919. Pp. 328.)

A message from Mexico. (New York: Am. Exchange Nat. Bank. 1920. Pp. 19.)

Agriculture, Mining, Forestry, and Fisheries

Principles of Agricultural Economics. By HENRY C. TAYLOR. (New York: Macmillan Company. 1919. Pp. x, 439. $2.50.)

It is fifteen years since the author's little book, entitled *An Introduction to the Study of Agricultural Economics,* appeared. Immature and incomplete as it is, it marked the starting point for class discussions in agricultural economics in several American colleges and universities. Fairchild's *Rural Wealth and Welfare,* published earlier, is more ambitious, and Carver's *Rural Economics* much more readable and thought-provoking, but Taylor's *Introduction* has held its place as a class-room text to this time.

The new book will have a cordial reception in college circles, for a more comprehensive and consistently written text than any English text now in use has been much needed. We may not in-

dorse without qualification all the economic doctrines of the author; yet he is the dean of agricultural economists in this country and his book is the outgrowth of nearly twenty years in the class-room with college men.

Whether there are clearly defined scientific fields which may be named agricultural botany, agricultural chemistry, or agricultural economics is, perhaps, an academic question. Certainly there are specific agricultural applications of botany, chemistry, and economics which require study and elucidation. The practical question is, What matters shall be included under a specific title? Investigations of commercial agriculture reveal many rather well defined subjects of study that have been grouped more or less consistently under the title of "agricultural economics." Some of these subjects deal with the internal economies of the individual farm enterprise, with problems of farm practice and farm management. Other problems concern the social conditions and activities of the rural people, problems usually included in rural sociology.

In general the author holds to a comprehensive definition of agricultural economics. He includes several topics usually found in books on farm management that deal with the details of management of individual farms. On the other side, he includes an excellent chapter on the social phase of farm life, clearly in the field of rural sociology. This definition is much more inclusive than the analagous definition of transportation economics, for example, but the author, who personally has been very closely in touch with the management of specific farm enterprises for many years, has never been able to define the subject more narrowly.

If one may judge by the space allotted to the various topics discussed, the author's judgment of their relative importance has not changed materially since 1905. One third of the book deals with the acquisition and tenure of farm land; more than one fourth is devoted to tenancy; approximately one third is concerned with the problems of agricultural production. On the other hand, the chapter on the marketing of farm products is only five pages long; the whole subject of markets, middlemen, and prices is discussed in less than thirty pages; agricultural credit and interest rates are given twelve pages, and organization of farmers for production, marketing, or other economic purposes is dismissed in a few paragraphs. These inferences from space may not, however, be fairly drawn.

The greater part of the book is an expansion and amendment of the preceding volume, but there are some new chapters. One of these is a chapter on rural social life prepared by the author's colleagues. Another enumerates the economic motives and ideals in agriculture: the means of satisfying one's wants and the wants of home and family; pride in one's work; accumulation of landed property; joy in work; habit; desire for ease and leisure; patriotism; community spirit; legal compulsion; religion; duty. Surely here is variety of motive and ideal but why name them *agricultural?* My Greek grocer is actuated by most of them; my neighborly professor of literature by the others, and my banker and barber by all of them.

He is a poor economist who cannot add a new word to our economic terminology. In his first book, the author drew a nice distinction between fertility and productivity as related to land, the former measured by the quantity, the latter by the value of products therefrom. This distinction he seems now to have discarded.

Now Dr. Taylor attempts refined definitions of capacity, efficiency, and productivity when applied to agricultural land and equipment. Capacity he uses in the sense of capaciousness, ability to absorb or take in; in other words, "input." Productivity relates to output, measured in volume or value. Efficiency is the relation between intake and output. "The product divided by capacity equals efficiency." This is analogous to the "operating ratio" of railroads. The principle is familiar enough to producers, but the term capacity which the author first defines as "*power to receive*, etc." is likely to be confused with the popular use of the term—ability to turn out product. Even the author in illustrating the use of the term seems to use it ambiguously when he speaks of a boy workman, a family cow, and a horse "when there is small demand for horse labor," as being of low capacity.

The author states that the book is intended for students, farmers, and statesmen. Few farmers will read many chapters with pleasure. Students will find some of the reasoning difficult and labored. One new chapter on price fixing in relation to cost of production is a gratifying exception. Taking his text from the recent commissions on the determination of milk prices, the author shows the use, the importance, and the limitations of cost-of-production figures as a basis for fixing prices. "Variations in

costs," the principle of joint costs and "disagreements regarding cost factors" are important reasons for the difficulties attending the determination of prices on a cost-plus basis. The reviewer has frequently and emphatically called attention to the necessity for considering the profits of the *whole* farm or railroad or small merchandising enterprise as the deciding factor rather than the profitableness of each sale of merchandise or each specific production. The author stresses this point and analyzes the considerations which should guide a farmer in making changes in his production or his vocation.

This book contains no bibliography, few statistics, and practically no questions or problems for class-room discussion. To many who are not familiar with the literature of agricultural economics, the omission of the bibliography will be disappointing.

ALEXANDER E. CANCE.

Massachusetts Agricultural College.

NEW BOOKS

ALDERSON, V. C. *The oil shale industry.* (New York: Stokes. 1920. Pp. 175. $4.)

BESEMFELDER, E. R. *Die staatswirtschaftliche Verwertung der Kohle.* (Berlin: Heymann. 1920. Pp. iv, 76. 4 M.)

BULLER, A. H. R. *Essays on wheat.* (New York: Macmillan. 1920. Pp. xv, 339.)

The main purpose of the author in writing this volume is to give an account of the discovery and introduction of Marquis wheat which is one of the most valuable food plants in the world. But he has rounded out his discussion by including chapters on the Early History of Wheat Growing in Manitoba, Wheat in Western Canada, the Origin of Red Bobs and Kitchener, and the Wild Wheat of Palestine. In his chapter on Marquis wheat, Dr. Buller gives the story of this variety from the planting of a few grains, in 1904, to 1918 when the output amounted to upwards of 300,000,000 bushels. The superiority of Marquis over any other varieties, according to the author, lies in its excellent yield, in its good milling and baking qualities, and in the relative promptness with which it matures. The last-named quality in turn enables it to escape to some extent rust, early frosts, and dangers of storm. In addition, early maturity enables the farmer to gain almost a week "between harvest and freeze-up" for the preparation of his land for the next year—a gain which is of considerable importance in the prairie provinces, where at best only a few weeks intervene between the gathering of crops and the hard frosts of winter. All these matters are discussed in an interesting and comprehensive way.

As to the future of Marquis, Dr. Buller is of the opinion that "there is no reason to believe that plant breeders have already obtained the utmost possible in their endeavors to improve the varieties of wheat now grown, for the wheat-plant is a plastic thing and the limits of its variability have not yet been ascertained." Besides, until recently, the number of plant breeders who have devoted attention to the production of new varieties has been very limited, while the properties which may be investigated are very numerous.

The book is much more than a discussion of wheat breeding and growing. Chapter 2, on Wheat in Western Canada, contains a particularly good account of a number of things which are of interest to the student of marketing, including methods of transportation, grading, storing, and financing of the grain crop. To some extent the author's treatment of his subject leads him to a discussion of wheat raising in the Northwest of the United States, and to the relative merits of the various kinds of grains. These matters, also, are presented in an interesting and comprehensive fashion. The book should appeal not only to the student of economic history, and to botanists, but to the general reader who may wish to learn something of the great cereal crops of North America.

ISAAC LIPPINCOTT.

BURROUGHS, E. H. *Bibliography of petroleum and allied substances.* (Washington: Mines Bureau. 1920. 25c.)

DE VAULT, S. H. *The supply and distribution of Connecticut Valley cigar leaf tobacco.* (Amherst: Mass. Agri. Ex. Sta. 1919.)

DUNLOP, J. P. *Gold and silver in 1918. Mineral resources of the United States, 1918,* part 1. (Washington: Supt. Docs. 1920.)

FUNK, W. C. *An economic study of small farms near Washington, D. C.* Department of Agriculture bull. 848. (Washington: Supt. Docs. 1920. 5c.)

GRAY, L. C., and LLOYD, O. G. *Farm land values in Iowa.* U. S. Dept. Agri. bull. 874. (Washington: Supt. Docs. 1920. Pp. 45.)

See page 644 in the September, 1920, number of this REVIEW.

JENKINS, D. T. *The sea fisheries.* (London: Constable. 1920. Pp. xxxi, 299. 24s.)

MEAD, E. *Helping men own farms.* (New York: Macmillan. 1920. Pp. 228. $2.25.)

MORTIMER, G. *Aluminium.* Common commodities and industries series. (New York: Pitman. 1920. Pp. 152. $1.)

PENZER, N. M. *Cotton in British West Africa, including Togoland and the Cameroons.* Federation of British Industries. (London: T. Murphy & Co. 1920. Pp. 53. 5s.)

ROSS, V. *The evolution of the oil industry.* (Garden City: Doubleday, Page. 1920. Pp. xvi, 178. $1.50.)

STRAIT, E. D. and DIXON, H. M. *The organization and management of farms in northwestern Pennsylvania. An analysis of the business of 428 farms in the vicinity of Grove City, Pa.* Contribution from the Office of Farm Management, July 20, 1920. Department Bulletin 853. (Washington: Supt. Docs. 1920. Pp. 32. 10c.)

WEYRAUCH, W. *Das Eisen in Russland.* (Leipzig: K. J. Koehler. 1920. Pp. 43.)

Atlas of American agriculture. Part II, *Climate.* Section 1, *Frost and the growing season.* (Washington: Supt. Docs. 1920. Pp. 40.)

Fisheries in the Great War, being the report on sea fisheries for 1915-1918, of the Board of Agriculture and Fisheries. Parts I and II. (London: H. M. Stationery Office. 1920. 2s.)

The iron ores of Lake Superior. Fourth edition. (Cleveland, O.: Penton Pub. 1920. Pp. 285, maps. $5.)

List of references on women in agriculture. (Amherst, Mass.: Mass. Agri. College. 1919. Pp. 8.)

A method of analyzing the farm business. Farmers' bull. 1139. (Washington: Supt. Docs. 1920. Pp. 40.)

Three centuries of tobacco. (Washington: Bureau of Crop Estimates. 1920. Pp. 26.)

Manufacturing Industries

NEW BOOKS

BAUMGARTNER, F. W. *The condensed milk and milk powder industries.* Bulletin of the Departments of History and Political and Economic Science in Queen's University, Kingston, Ontario, Canada. (Kingston: Queen's Univ. 1920. Pp. 32.)

MEES, C. E. K. *The organization of industrial scientific research.* (New York: McGraw. 1920. Pp. 175.)

Discussion of the types, organization, and service of industrial laboratories, followed by a bibliography of eleven pages.

PAYNE, G. H. *History of journalism in the United States.* (New York: Appleton. 1920. Pp. 453. $2.50.)

WILLIAMS, W. B. *History of the manufacture of explosives for the world war 1917-1918.* (Chicago: Univ. Chicago Press. 1920. Pp. 71.)

L'industria cotoniera italiana e le "Manifatture Cotoniere Meridionali." (Rome: Banca Italiana di Sconto. 1919. Pp. 32.)

Second American lumber congress and eighteenth annual meeting. (Chicago: National Lumber Mfrs. Assoc., 925 Lumber Exchange. 1920. Pp. 112.)

Transportation and Communication

NEW BOOKS

ANNIN, R. E. *Ocean shipping. Elements of practical steamship operation.* The Century foreign trade series. (New York: Century Co. 1920. Pp. 427. $3.)

Deals with ship management and operation including such topics as freight rates, the labor problem, officering and manning, stevedoring, foreign exchange, the traffic manager, terms and definitions, the cargo, marine insurance, the bill of lading, and various forms of charters. Although the book cannot be described as having a scholarly style and although the author's ideas on economics seem to be a bit unorthodox at times, the reader will find this volume far more useful than many written in a more literary vein. The author seems to be thoroughly familiar with his subject-matter and has produced an atmosphere about it that enables the student to almost picture himself on board a vessel observing the practical problems of shipping. In the main, one gains the impression that the material has been obtained from men rather than from books. Some fifty pages are devoted to appendices and they contain such matter as: note of protest, extended protest, average bond, York-Antwerp rules, bills of lading, charter party, uniform time-charter, Hartes act, list of shipping forms, dispatch papers, managing agreement, and operating agreement. M. J. S.

BLOW, B. *California highways; a descriptive record of road development by the state and by such counties as have paved highways.* (San Francisco: California State Auto Assoc. 1920. Pp. 308. $6.)

CANDELERO, M. *Organizzazione del lavoro ed efficienza industriale.* (Torino: Lattes. 1919. Pp. 279. 10 l.)

HURLEY, E. N. *The new merchant marine.* Century foreign trade series. (New York: Century Co. 1920. Pp. 296. $3.)

MERTENS. *Dreizzig Jahre russischer Eisenbahnpolitik.* (Berlin: Springer. 1919. Pp. 242.)

SUPINO, C. *La marina mercantile italiana.* (Bologna: Zanichelli. 1920. Pp. 140. 4.50 l.)

THOMPSON, C. D. *Public ownership of railways.* (Chicago: Public Ownership League of America. 1919. Pp. 100. 50c.)

VANDERBLUE, H. B. *Railroad valuation and the Interstate Commerce Commission.* (Cambridge: Harvard University Press. 1920. Pp. 117.)

This book is a reprint of "Railroad valuation," published in the *Quarterly Journal of Economics* for November, 1919, and February, 1920. It contains in addition an introductory note on the "Valuation provisions of the Transportation act, 1920," which appeared in slightly different form in the AMERICAN ECONOMIC REVIEW for June, 1920. In an appendix there is given the text of the Valuation act

of 1913. The book is scholarly, critical, and abundantly supported by references. To fully appreciate it the prospective reader should first examine the author's earlier work on *Railroad Valuation*.

The position of the author is that the Interstate Commerce Commission, which is directed by the Transportation act of 1920 to find the "value" of railway properties, will not succeed; that any valuation set by it will be merely an arbitrary figure. To date, the commission has made fifty-five tentative valuations, but not one of them contains figures of "value." There are, to be sure, summaries of the "cost of reproduction new" and of the "cost of reproduction less depreciation" (excluding land); summaries of the "present value" of land; and summaries of the original cost, where data were available. But the commission has arrived at no figure purporting to represent the "value" of any railroad. And the author declares that any "final value" that may be agreed upon for a particular road, based upon the figures thus far published, will not represent the actual value of that road, because of the fact that the data from which the final value is to be deducted are not comparable, having been collected on different hypotheses, on different dates, etc. He therefore calls upon the commission to admit frankly that such final figures of value as it arrives at are not scientifically valid; are, in fact, merely its best "guess" as to the value. ELIOT JONES.

WEISS, G. *America's maritime progress; a record of the rehabilitation of the American merchant marine.* (New York: The Marine News, 26 Water St. 1920. Pp. 532. $5.)

WELD, W. E. *India's demand for transportation.* Columbia University studies in history, economics, and public law, vol. XC, no. 2. (New York: Longmans. 1920. Pp. 127. $1.25.)

History and development of New York Shipbuilding Corporation. (New York: American International Corporation, 120 Broadway. 1920. Pp. 66.)

Influence of the tractor on use of horses. U. S. Department of Agriculture. Farmers' bull. 1093. (Washington: Supt. Docs. 1920. Pp. 26.)

The shipping act and merchant marine act, 1920, revised to July, 1920. (Washington: Supt. Docs. 1920.)

Statistics of railways in the United States, 1917. (Washington: Interstate Commerce Commission. 1920. $1.25.)

Traffic geography. (Chicago: Am. Commerce Assoc. 1920. Pp. xi, 321.)

Transportation act, 1920, approved February 28, 1920. (New York: Guaranty Trust Co. of N. Y. 1920. Pp. 112.)

Trade, Commerce, and Commercial Crises

NEW BOOKS

AUSTIN, O. P. *Trading with the Far East.* (New York: National City Bank. 1920. Pp. 78.)

ARNOLD, J. *Commercial handbook of China.* (Shanghai: Kelly & Walsh. 1920. Pp. 629, maps. $1.50.)

BERNHARDT, J. *Mobilization of the sugar industry.* (New York: Macmillan. 1920. $2.50.)

BERNIS, F. *Fomento de las exportaciones.* (Barcelona: Minerva. 1920. Pp. 232.)

CHERINGTON, P. T. *The elements of marketing.* (New York: Macmillan. 1920. Pp. xii, 238.)

DUNCAN, C. S. *Marketing.* (New York: Appleton. 1920.)

FAYLE, E. *Seaborne trade.* Vol. I. *The cruiser period.* (New York: Longmans. 1920.)

FILSINGER, E. B. *Commercial travelers' guide to Latin America.* Department of Commerce. Bureau of Foreign and Domestic Commerce. Miscellaneous series, no. 89. (Washington: Supt. Docs. 1920. Pp. 592; maps in separate portfolio. $1.25.)

LALLIÉ, N. *La guerre au commerce allemand.* (Paris: Librairie de la Soc. du Recueil Sirey. 1920. 3.50 frs.)

MACLAURIN, R. *The oversea illusion. Its amazing effects on prices, wages and output.* (London: Bell. 1920. Pp. 213.)

MILLER, T. S. *Cotton trade guide and students' manual.* Third edition. (Austin, Texas: E. L. Steck Co. 1920. Pp. 448.)

NORD, A. *Die Handelsverträge Chinas.* (Leipzig: K. F. Koehler. 1920. Pp. 215. 16 M.)

O'MALLEY, F. *Our South American trade and its financing.* Foreign commerce series, 3. (New York: National City Bank. 1920. Pp. 125.)

REA, R. *The triumph of free trade and other essays and speeches.* (London: Macmillan. 1920. 15s.)

SCHMIDT, E. W. *Die agrarische Exportwirtschaft Argentiniens.* Problems der Weltwirtschaft, 33. (Jena: Fischer. 1920. Pp. xv, 296. 35 M.)

SCHULTZ, H. O. *Devisenhandelspolitik.* (Stuttgart: Enke. 1918. Pp. 105. 4.80 M.)

SMITH, J. R. *Commerce and industry.* Revised edition. (New York: Holt. 1920. Pp. 645. $1.72.)

WOLFE, A. J. *Theory and practice of international commerce.* (New York: International Book Pub. Co. 1919. Pp. 548. $5.)

The appearance of a work upon foreign trade which goes beyond the elementary and the superficial so characteristic of most of previous general literature upon the subject is most welcome. Mr. Wolfe has performed in the work which he presents to us a very important service in bringing to the English literature of foreign trade the type of logical analysis of export structure and function which seems in the past to have been confined to foreign publications. Part I, entitled The Theory of International Commerce, contains an exposition of international commercial organization and sales contracts in international commerce. Seven chapters are devoted to commercial organization; taking up the organization of the export trade in exporting countries, commercial connections between exporting and importing countries, and the organization in the importing country. Other chapters take up the organization of the import trade in oversea products and the organization of public sales. Chapters X and XIII inclusive are devoted to sales contracts in international commerce in which the form of contract, contract obligations, contract performance, the price and technique of price calculation and special types of international sales contracts are discussed. Part II, Problems of Modern American Export Practice, devotes four chapters (XIV-XVII) to the problem of foreign credits, in which the topics treated are German and British methods of financing foreign shipments and financing exports in America before and since the federal reserve act. In conclusion, there are chapters upon certain legal phases affecting American commercial enterprises domiciled abroad, foreign trade promotion, and export publicity.

The volume presents a scientific outline of foreign marketing organization. Much of the functioning of this organization is omitted from consideration, because Mr. Wolfe assumes knowledge of elementary matters; this assumption allows him to go much beyond previous general works. The most valuable part of the work comprises the chapters of part I dealing with the classification of importers and exporters upon various bases. Here particularly, in method and substance, Mr. Wolfe seems to give evidence of indebtedness to certain German works, particularly the book of Hellauer entitled *System der Welthandelslehre.* To have indicated sources in accordance with practices of scientific writing would have been an aid to the advanced student of foreign trade. Certainly a frank statement of sources would not lessen the contribution that Mr. Wolfe has made.

HARRY R. TOSDAL.

American merchant marine conference report to accompany H. R. 10378. (Washington: Supt. Docs. 1920. Pp. 36.)

Coöperative marketing. Farmers bull. 1144. (Washington: Supt. Docs. 1920. Pp. 27.)

Exporter's gazetteer of foreign markets . . . 1920-1921. (New York: Johnston Export Pub. Co. 1920. Pp. xxiii, 766.)

First report of the departmental committee on the wholesale food markets of London, February 23, 1920. (London: H. M. Stationery Office. 1920.)

Il Museo Commerciale e Coloniale di Napoli nel suo primo anno di funzionamento, 1919. (Napoli: Francesco Razzi. 1920. Pp. 22.)

The import and export schedule of France. U. S. Bureau of Foreign and Domestic Commerce. Miscellaneous series, 102. (Washington: Supt. Docs. 1920. Pp. 56.)

Information booklet regarding 1920 edition of the port of New York annual. (New York: Smith's Port Pub. Co. 1920.)

Latin-American yearbook for investors and merchants for 1920. (New York: Criterion Pub. Syndicate. 1920. Pp. 647.)

Trade with the Orient. (Pittsburgh: Bank of Pittsburgh. 1920. Pp. 15.)

Accounting, Business Methods, Investments, and the Exchanges

Fair Value. The Meaning and Application of the Term "Fair Valuation" as Used by Utility Commissions. By Harleigh H. Hartman. (Boston: Houghton, Mifflin Company. 1920. Pp. xix, 263. $2.50.)

The book is divided into two parts: Part I, on the meaning of the term "fair value"; part II on the application of the theory of fair value. The first is far the more significant part. It is devoted to the fundamentals of public utility regulation, develops clearly several important ideas, and constitutes a substantial contribution to the discussion of regulation. It takes up the basis of regulation, the purpose of regulation, valuation and regulation, the theory of valuation, and valuation methods. There is considerable repetition and overlapping discussion. Part II takes up the valuation of the different classes of public utility property with a chapter devoted to each of the following: valuation of tangible property, valuation of intangible property, depreciation, return on the investment, and conclusion. There is a short selected biography, which is very incomplete, a table of cases cited, and an index.

The most valuable single idea of the book is the author's view as to the primary basis of regulation. He finds this not in monopoly, nor in the character of the franchise, nor in public grant, but in the fact of the public interest in the business. A public utility involves the welfare of the community to such an extent

that the service must be guaranteed by the state, and thus assumes the character of a governmental function. The essence of regulation is stated as the control over service and price.

It is not clear, however, whether the author follows completely the public interest theory. In its broadest form it would require that whenever any industry becomes of such general importance to the public at large that the general welfare is accordingly dependent upon service, the business becomes by that fact a public utility, subject to regulation both as to quality and price of service. This view would bring under regulation, coal mining, the distribution of milk in the larger cities, meat packing, and any business, in fact, which is of general public importance and whose service, therefore, should be assured to the public at a fair price. Apparently, however, the author would not go to this extent of the public-interest theory. He seems to restrict the idea to those enterprises which long ago were recognized as vested with public interest. It is not clear that he would approve a progressive recognition of the fact that a new business actually acquires a public interest in that it has become important to the public welfare.

"Fair value" is presented as a part in the mechanism determining the normal cost of service which is urged as a proper basis of rates. Cost of service includes labor and materials, depreciation, and return on investment. The proper basis of return is presented as the actual unimpaired investment in property, after deduction for depreciation. Reproduction cost or securities outstanding would be useful only as a check upon the proper valuation, but do not themselves constitute "fair value."

A suggestive piece of legal analysis with important bearing upon the idea of fair value, is presented in regard to the judicial conception of fixing public utility rates. The common view is that a property is taken for public purposes and that, therefore, the idea of condemnation applies. The author argues, however, that this analogy of condemnation is false, and that it has led extensively to valuation at reproduction cost. In reality what has taken place, the author urges, is that the state has invited private capital to serve the public and has tacitly promised a fair return for the service. The implied contract involves a fair return on actual investment. There is no condemnation of property for public purposes. If a fair return is not allowed, the act comes in conflict with the constitution through violation of con-

tract and not through the taking of property for public purposes without due compensation.

Emphasis is laid upon the fact that it is the service and not the property that is taken for public purposes. The proper payment, therefore, is the value of the service. The author repeats often that it is the value of the service which is the proper basis of rates; but he considers the value of the service as equivalent to actual normal cost of service. He does not show how the equivalence is established, nor does he define precisely what he means by value of service. As the term is ordinarily understood in railroad and public utility parlance, value of service is not equivalent to cost. It means rates which bring the maximum return to the company or rates fixed on what the traffic will bear. This, of course, is not equal to the cost of service and does not furnish a desirable basis of public utility rates.

A valid criticism of the book is that it overstrains legal definitions and logical legal relationships. This appears clearly in the long discussion of condemnation, police power, implied contracts and fair value. After all, regulation rests on the development of public policy toward industry. Such policy, naturally, grows out of what seems desirable and reasonable, and not from what logically follows from previously established legal principles. Law follows while policy determines. Even the matter of fair value cannot be decided by legal analysis. It depends upon what is desirable and reasonable under the complex circumstances that have attended the various public utilities as they have been brought under regulation.

JOHN BAUER.

New York City.

Millions from Waste. By FREDERICK A. TALBOT. (Philadelphia: J. B. Lippincott Company; London: T. Fisher Unwin, Ltd. 1920. Pp. 308.)

This timely book, which combines to a marked degree solidity of substance with an entertaining style, is written from the point of view of the recent experience of Great Britain, but its lessons have a world-wide application. Its purpose is "to indicate certain of the most obvious channels through which wealth incalculable is being permitted to escape, as well as the narration of something concerning the highly ingenious efforts which are being made to prevent such wastage." Although, as the author himself states,

the subject of waste reclamation is too extensive to be handled completely in any one volume, nevertheless we have here a thoroughgoing general survey.

Before the war the root of waste was cheapness. Many things were sold at so low a price that it was actually cheaper, as well as more convenient, to buy fresh supplies "than to endeavor to induce additional service from what was already in hand." In the prewar period the Germans alone found it worth while to explore systematically the possibilities of exploitation of residues, both industrial and domestic. With the war the whole situation changed in Britain and elsewhere: not only did prices rise but it became impossible with respect to many raw materials to obtain adequate supplies at any price. In consequence a general impetus was given to the methodical reclamation of residues such as might have been long postponed but for the war. To give but one of the many telling illustrations with which this book abounds: Before the war, used linen tobacco bags were thrown away and so destroyed. But during the war when the price of flax rose from $270 to $1,400 per ton, an industry was developed which collected two thousand soiled bags per month and processed them to extract the nicotine so that the bags could be used again, or the linen used for some other purpose. The nicotine itself was utilized in the manufacture of insecticides. And after the war this sort of thing must still go on because raw materials and labor are scarce and prices all round will continue to be high. The object of the book, that is to say, is not only to prevent society from lapsing into its pre-war thriftlessness but to push the campaign of reclamation of residues into fields it has not yet penetrated.

The author describes with considerable detail the new devices of the mechanical engineers and the resources of the industrial chemists in handling junk of all kinds and industrial leftovers. In this last field examples are given of how the progress of the arts in the past has often caused substances to pass from the category of waste to the category of by-product and finally to the condition of being the staple product of some industry. The author gives prominence to the managerial and economic problems involved in the subject of "wealth from waste," as well as to those of engineering and chemistry. With respect to the salvaging of domestic castoffs on such a commercial basis that it will pay, by far the greatest difficulty, it is asserted, is that of "collection and segregation." Without cheap and comprehensive collection of

many classes of waste materials the scale of operations will not be sufficient to be profitable; and without classification and rough grading the retrieved waste cannot have its full value. The initial commercial process of "collection" can never take place with thoroughness throughout the whole country unless there is a "recognized market" for all waste products; that is, unless there are authoritative published price lists. The traditional practice has been for junkmen and other professional waste exploiters to seek their profit by offering for waste less than it is worth, so that people in general have preferred to throw their rubbish away rather than to sell it. This condition must be remedied by publicity as to proper prices.

It is interesting to note that the author depends, for the great things he desires to have accomplished, upon the proper organization and employment of private enterprise. What can be achieved in this direction is shown by the operations of the establishment of M. Verdier-Dufour in Paris (p. 301) who has organized collections, established standard prices, and maintained his segregations and grades so well that manufacturers who bought of him "merely had to dump the waste into their machines, thus treating it as if it were raw material." One might think, the author observes, that in the municipal authorities of Britain there is in existence the finest machinery for the reclamation of waste. "The average municipal engineer, even if anxious to excel in this province, finds himself hampered at every turn." He is not vested with sufficient authority. There is also lack of practical knowledge. Under conditions of municipal management inventive effort "is not able to exercise the influence or reap the benefits which it really deserves." On the other hand, the inertia of private enterprise in many lines in Great Britain is not spared. As an example, the author discusses the strange backwardness of English industrialists in obtaining benzol from the residuals of the distillation of coal for use in internal combustion engines (now practically all imported at great cost).

One of the most fascinating chapters of the book is that entitled Saving the Scrap from the Sea; others are Invention in its Application to Waste Recovery, The Lifting Magnet as a Waste-Developing Force, and House-Building with Wastes. The usability of the book would have been much increased by an index.

CHARLES W. MIXTER.

Brookline, Mass.

NEW BOOKS

BALL, J. S. *A system of farm cost accounting.* Farmers' bull. 572. (Washington: Supt. Docs. 1920. Pp. 23.)

BARBER, H. L. *Investing for profits; a guide in making money through investments.* (Chicago: A. J. Munson & Co. 1920. Pp. 285.)

BERNDT, I. A. *Costs, their compilation and use in management.* (Chicago: H. P. Gould Co. 1920. Pp. xvi, 235.)

BERRIMAN, A. E., HEATH, ST.G., AND OTHERS. *Industrial administration.* (New York: Longmans. 1920. Pp. vii, 203. $3.)

BOYLE, J. E. *Speculation and the Chicago Board of Trade.* (New York: Macmillan. 1920. $2.50.)

BUSH, C. H. *Applied business law.* (New York: Holt. 1920. Pp. 244.)

An elementary book covering essentials of contracts, agency, service, deposits, carriage, sales of goods, partnership, insurance, negotiable paper, real property, business corporation. Part II is entitled How to Write Business Papers. Questions and test problems are given.

CHILDS, F. H. *A treatise on American business law, with illustrative cases.* In seven volumes. Vol. 4, *Property, real and personal.* (Chicago: Walton School of Commerce. 1920. Pp. 515.)

CLAPP, J. M. *Talking business.* (New York: Ronald. 1920. Pp. 526.)

CLARK, H. C. *Service at cost plans; an identical analysis of statutes, ordinances, agreements, and commission orders in effect, or proposed, together with a discussion of the essential of local transportation franchises.* (New York: Am. Electric Ry. Assoc. 1920. Pp. 315. $2.50.)

DEINER, F. F. *A complete handbook of tailoring and shop management on the sectional or group system.* (New York: F. F. Deiner & Co. 1920. Pp. 152.)

DOW, C. H. *Scientific stock speculation.* (New York: Mag. of Wall Street. 1920. Pp. 101. $1.50.)

ELBOURNE, E. T. *The management problem.* Manufacturing problem series. (London: Library Press. 1919. Pp. 144. 4s. 6d.)

FERNLEY, T. A. *Price maintenance.* (London: Van Nostrand. 1920. Pp. 311. $2.)

FISH, E. H. *How to manage men.* (New York: Engg. Mag. Co. 1920.)

FREDERICK, J. G. *Understanding business through systematic reading.* (New York: Appleton. 1920. Pp. 76.)

FREY, A. B. *American business law.* (New York: Macmillan. 1920. Pp. xxv, 514. $4.50.)

It is stated in the preface that "the object of this book is to set forth clearly and concisely those fundamental principles upon which is built the superstructure of business law. In order to make clear such principles and at the same time to impress them upon the reader's mind in a practical as well as in a theoretic manner concrete illustrations have been used, some of which are synopses of, and excerpts from, the leading cases decided in Great Britain and the United States. At the end of each chapter a number of carefully prepared questions have been given referring to the subject-matter of the text preceding. Some of the hypothetical cases have been chosen from actual decisions of the Courts of Last Resort."

GOLDMANN, O. B. *Financial engineering.* (New York: Wiley. 1920. Pp. x, 271. $3.50.)

Written primarily for the practicing engineer. Discusses cost analysis; depreciation and appreciation, interest, obsolescence, unit costs, etc.

GREELEY, H. D. *Business accounting.* (New York: Ronald. Five vols. $34.)

DE HAAS, J. A. *Business organization and administration.* (New York: Gregg Pub. 1920. Pp. 353. $1.60.)

HODGE, A. C. M. and MCKINSEY, J. O. *Principles of accounting.* (Chicago: Univ. Chicago Press. 1920. $3.)

IVEY, P. W. *Elements of retail salesmanship.* (New York: Van Nostrand. 1920. Pp. 256. $2.25.)

JORDAN, J. P. and HARRIS, G. L. *Cost accounting principles and practice.* (New York: Ronald. 1920. $3.)

KIMBER, A. W. *Foreign government securities.* (New York: A. W. Kimber & Co., Inc. 1919. Pp. 304.)

KITSON, H. D. *Manual for the study of the psychology of advertising and selling.* (Philadelphia: Lippincott. 1920. Pp. 116. $1.)

The several parts are entitled: Attract attention; Hold attention through interest; Arouse desire; Create confidence and belief; Secure decision and action; Create feeling of satisfaction. "The psychological point of view is strictly maintained." Questions and exercises are furnished. References are given to four books which may be used as texts; and there is a bibliography.

LADD, C. E. *A system of farm cost accounting.* Farmers bull. 572. (Washington: Supt. Docs. 1920. Pp. 23.)

LEE, J. M. *Business writing.* (New York: Ronald. 1920. Pp. xxii, 611.)

LYONS, J. A. and SMITH, O. S. *Lyon's bookkeeping and accounting.* (Chicago: Lyons & Carnahan. 1920. Pp. 240.)

MCGARRAUGH, R. *Mine bookkeeping; a comprehensive system of rec-*

ords and accounts for mining operations of moderate dimensions. (New York: McGraw-Hill. 1920. Pp. viii, 118. $2.)

MOORE, J. H. and HOUSTON, C. A. *Problems in business law.* The College of the City of New York series in commerce, civics and technology. (New York: Appleton. 1920. Pp. xxviii, 272.)

The introduction notes that "this is the first case book of commercial law prepared for colleges and schools of business. It is not intended for professional law schools."

MOODY, J. *Moody's analyses of investments.* 1920 edition. Part 1, *Steam railroads.* Part 2, *Industrials.* Part 3, *Public utilities.* Part 4, *Governments and municipals.* (New York: Moody's Investors Service. 1920 $50; $15 each.)

MUSCIO, B. *Lectures on industrial psychology.* Second edition. (London: Routledge; New York: Dutton. 1920. Pp. 300. $3.)

"The immediate aim of industrial psychology is to utilize psychological knowledge (a) in selecting workers on the basis of natural fitness and (b) in constructing good methods of work, for the purpose of obtaining from any expenditure of human energy or effort a maximum production." In a comprehensive survey clearly written, and adequately but not tediously illustrated, Muscio presents the salient facts thus far available to industry.

The book does not aim to discuss the selection of workers from the various angles presented in Link's admirable book on *Employment Psychology;* but is rather a convincing compendium of reasons and results. The major portion is devoted to improved methods of work, through scientific management, motion study, and the proper appreciation of fatigue, muscle coördination, and individual differences. The charges of labor against scientific management and the psychology of labor's attitude are constructively treated. The book is unencumbered by technical language, is well organized in content, and direct in statement. It is profitable and entertaining material for any one interested in the industrial world.

CHARLES LEONARD STONE.

OPDYCKE, J. B. *The English of commerce.* With an introduction by FRANK A. VANDERLIP. (New York: Scribners. 1920. Pp. xvi, 435. $2.25.)

PADDOCK, C. E. and HOLTON, E. E. *Vocational arithmetic.* (New York: Appleton. 1920. Pp. x, 232.)

PARSONS, T. *Laws of business for all the states and territories of the Union and the Dominion of Canada, with forms and directions for all transactions.* New enlarged and revised edition, by C. M. REED. (Hartford, Conn.: S. S. Scranton Co. 1920. Pp. xix, 961.)

PATON, W. A. and STEVENSON, R. A. *Problems and exercises in accounting.* Third edition, revised and enlarged. (Ann Arbor: George Wahr. 1920. Pp. 195. $1.50.)

The material has been prepared to accompany the author's *Principles of Accounting.* The problems and exercises chosen have been constructed to illustrate specific principles for class-room purposes. Although no attempt has been made to represent exactly the situations arising in accounting practice, many of the problems and exercises, particularly those dealing with financial statements have been adapted from concrete situations. A folio of blank forms has been arranged for use with the book.

ROLLINS, M. *Stocks and their market-places, terms, customs and usages; a reference book for the investor and stock broker.* Revised by P. W. BROWN. (Boston: Finan. Pub. 1920. Pp. 212. $1.25.)

SALIERS, E. A. *Accounts in theory and practice: principles.* (New York: McGraw-Hill. 1920. Pp. x, 301. $3.)

SHERWOOD, J. F. *Public accounting and auditing, correlating the subjects accounting, auditing, and commercial law.* (Cincinnati: Southwestern Pub. Co. 1920. Pp. 258. $3.50.)

SLOAN, C. A. and MOONEY, J. D. *Advertising the technical product.* (New York: McGraw-Hill. 1920. Pp. 365. $5.)

SNEDDEN, D. S. *Vocational education.* (New York: Macmillan. 1920. Pp. xi, 587.)

SWEET, N. M. *The industrial settlement; a classical exposition of economic forces for the establishment of industrial peace.* (Chicago: Author. 1920. Pp. 64.)

TEAD, O. and METCALF, H. C. *Personnel administration.* (New York: McGraw-Hill. 1920. Pp. 520. $5.)

THOMSON, E. H. *Farm bookkeeping.* Revised by J. S. BALL. Farmers bull. 511 reprint. (Washington: Supt. Docs. 1920. Pp. 41.)

TRABUE, M. M. and STOCKBRIDGE, F. P. *Measure your mind.* (Garden City, N. Y.: Doubleday, Page. 1920. Pp. 349. $3.)

The use of mental tests in the United States Army has brought the subject of mental measurement into wide current discussion. Realizing that mental fitness, of a general and of a specific sort, is so large a factor in the problems of industrial efficiency, the alert business man is ready to interest himself in the theory and methods of mental testing and to become acquainted with different types of mental tests.

A compilation such as the Mentimeter tests, which form the nucleus of this volume, serves the latter purpose excellently. A thoughtful examination of the tests will show that they have been carefully worked out, and the items of each test arranged in the most satisfactory order, that of increasing difficulty.

But this valuable material of the book is likely not to receive its due attention from industrial or business men because, although the book purports seriously to crave the audience of industry, it wavers

to catch the teacher and other professional classes; the early pages are sluggish, indefinitely organized reading; points of relatively little moment to the executive, for example, the difference between mental ability and mental capacity, are obscured by tedious attempts at elucidation; and at least the early pages smack very much of academic self-sufficiency.

The book is not a manual like Whipple's *Manual of Mental and Physical Tests*, but suggests a series of tests from which may be chosen various tests of presumed value in a given industrial position or job. It is unfortunate that although "some of these tests have been in successful operation in large industries all over the country," there are no statistics given to show the scores of various types of workmen in the different tests. The illustrative material of the book is chosen chiefly from army uses and from the material around which Dr. Link has built his excellent volume, *Employment Psychology*.

The defects of *Measure Your Mind* are entirely those of organization and composition; the theory, the technique, and the essential content are meritorious. CHARLES LEONARD STONE.

WAGENSELLER, G. W. *Theory and practice of advertising.* Revised edition (Middleburgh, Pa.: Wagenseller Pub. House. 1920. Pp. 64. $1.)

WEED, W. X. *Practical real estate law.* Two vols. (Albany: Bender. 1920. Pp. 852; 1037.)

WILLISTON, S. *The law of contracts.* Vol. 2. (New York: Baker, Voorhis. 1920. Pp. xxi, 1272.)

WRIGHT, H. T. *Organization as applied to industrial problems.* (New York: Van Nostrand. 1920. Pp. 287, illus. $6.)

Accounting and business management. (Chicago: Am. Technical Soc. 1920. 7 vols.)

A classification of ledger accounts for creameries. U. S. Dept. Agri. bull. no. 865. (Washington: Supt. Docs. 1920. Pp. 40.)

Cost accounting in shipbuilding: report of the committee on uniform methods of cost accounting. (New York: Atlantic Coast Shipbuilders' Assoc. 1919. Pp. 132.)

Michigan C. P. A. manual. (Ann Arbor: State Board of Accountancy. 1920. Pp. 260.)

Operating expenses in retail hardware stores in 1919. Publications of the Graduate School of Business Administration, Harvard University, vol. VI, no. 4. (Cambridge: Harvard Univ. Press. 1920. Pp. 17. $1.)

Uniform cost system, designed for the National Machine Tool Builders' Association. (Worcester, Mass.: Miller, Franklin, Basset & Co. 1920. Pp. 71.)

Capital and Capitalistic Organization

Service at Cost Plans. An Identical Analysis of Statutes, Ordinances, Agreements, and Commission Orders in Effect, or Proposed, together with a Discussion of the Essentials of Local Transportation Franchises. By HARLOW C. CLARK. (New York: American Electric Railway Association. 1920. Pp. vi, 315.)

The first part of this monograph (66 pp.) is devoted to a discussion of the fundamental requirements of desirable service-at-cost contracts between street railway companies and municipalities, while the second part consists of a comparative analysis of the different service-at-cost agreements that have been adopted or considered in the several cities. Mr. Clark considers the street railway problem entirely from the standpoint of desirable agreements between operating companies and cities. He gives no consideration to municipal ownership and operation, assuming the obvious superiority of private operation, and therefore looks upon the newer service-at-cost agreements as the solution of the complicated street railway problems of the country.

The point emphasized mainly is the need of a unified system of street railroad transportation of a city. Mr. Clark would include within the same agreement all the transportation facilities in a municipality, whether subway, elevated, surface or motor bus lines. In the extension of lines or provision of service, there would be no competitive interests but simply the welfare of the public and the stipulated returns to the companies.

The second outstanding point, to which are devoted five short chapters, is the certainty of return to investors. Adequate service in a growing city requires constantly new capital, which must come from private investors, and therefore requires a high degree of certainty of return. Desirable service-at-cost contracts would not only safeguard the capital, but would practically guarantee the return, at least to the extent that rates can be fixed high enough under economical management to cover operating expenses and taxes, and to provide for depreciation and return on investment. After the initial valuation of the property, a stipulated return would be allowed on actual investment, and interest or dividends would be allowed in the cost of service as provided in the securities sold to investors. On this basis, there would be no lack of private capital available for street railway purposes.

Another point emphasized besides the safeguarding of return

to investors is the need of adequate compensation for management, which Mr. Clark distinguishes from the requirement of return on capital. He does not make clear whether the special compensation to management would go to the stockholders as additional dividends or to officers and employees as salaries and wages. Some form of bonus may perhaps be practicable to act as direct inducement to efficiency and progressive management, but any particular plan would have to be carefully worked out, or it would place higher costs upon the consumers without adding to economy or improvement of service.

The author would make the cost-of-service plan indeterminate as to period. The city would have the power at any time to adopt any transportation policy which seemed desirable, or to replace an unsatisfactory management. He emphasizes the desirability of not fixing rigidly either the quantity and the character of the service, or the rates paid by the public. Elasticity of control and definite rights of the investors are the essentials of the cost-of-service agreements.

In the second part of the monograph a comparison is made between the different cost-of-service agreements as to their chief conditions. The comparison includes nine major headings; and under subheads the provisions of the different agreements are quoted or briefly summarized. The book, therefore, brings together the provision of the various contracts for the convenient comparison of any particular subject-matter.

While the book is of the propaganda character, it nevertheless sets forth fairly the conditions of the modern franchises in a very liberal way. It is a valuable addition to the discussion of the street railway problem.

John Bauer.

New York City.

NEW BOOKS

Dewing, A. S. *The financial policy of corporations.* (New York: Ronald Press. 1920. Five vols. $12.00.)

Leonard, G. B. *The Minneapolis Street Railway and the new franchise.* Second revised edition. (Minneapolis: Author, 700 Andrus Bldg. 1920. Pp. 68. 20c.)

Stewart, F. M. *Public service rates in Texas cities.* University of Texas bulletin no. 1971. (Austin: Univ. Texas. 1919. Pp. 191.) Revision of *Public service rates in Texas cities* compiled by Mr.

Edward T. Paxton of the Bureau of Municipal Research and Reference and published in 1915.

THOMPSON, G. A. *Business trusts as substitutes for business corporations; a paper read before the Kansas City Bar Association.* (St. Louis: Thomas Law Bk. Co. 1920. Pp. 96.)

Public utilities reports annotated, containing decisions of the public service commissions and of state and federal courts. (Rochester: Public Utilities Repts., Inc. 1920. Pp. xxxvii, 1170.)

Labor and Labor Organizations

The History of Trade Unionism. By SIDNEY and BEATRICE WEBB. Revised edition, extended to 1920. (London and New York: Longmans, Green and Company. 1920. Pp. 784. $7.50.)

Webbs' *History of Trade Unionism* is preëminent among works in economic history. Its first edition, in 1894, set a model of interpretation and exhaustive research in economic documents. In its special field it has guided government bureaus and individual investigators.

The "new edition" of 1902 merely added a statistical supplement to the figures of 1894, a few historical references, and a brief record of events occurring since the time of the first edition. The present "revised edition" makes no material change in the first edition except to amplify at points the first chapter dealing with the origins of trade unionism in England. The early conclusion regarding those origins, independent both of craft guilds and machine industry, remains as it was, though the date of that origin is pushed back "to the latter half" or "the very close of the seventeenth century,"[1] whereas in the former editions no evidence of "continuous associations of wage earners" had been found prior to 1700.[2]

Another item, indicating the very minor extent to which changes have been made, is in the estimate of the comparative strength of trade unions and the craft gilds. Formerly craft gilds were considered not to have numbered at any time "a larger proportion" of the working population than the trade unions.[3] Now they are considered not to have numbered "as large a proportion."[4]

1 Pp. 21, 22.
2 New edition, p. 20.
3 Edition of 1902, p. 37.
4 P. 43.

Such changes as have been made are thus quantitative, brought about by the investigations especially of Unwin, Galton, and Mr. and Mrs. Hammond, or by reference to the great change in trade unionism itself during the past thirty years. Herein a formal but significant change has been made in the definition of a trade union. The earlier definition as "a continuous association of wage-earners for the purpose of maintaining or improving the conditions of their employment" had been criticized as implying a "perpetual continuance of the capitalist or wage-system." This had not been intended, and in place of the words "conditions of their employment" is substituted "conditions of their working lives,"[5] so that revolutionary unionism is now explicitly included in trade unionism.

It is these changes of the past twenty-five years, in which the Webbs themselves have been high participants, that make the edition of 1920 a new book. Of the 718 pages of text, 471 are revision of history prior to 1890, 247 pages are history, criticism, and their own program since 1890.

In 1890 the British trade unions included scarcely twenty per cent of the wage-earners; now they include over sixty per cent. Their internal organization has been "in many cases, officially adopted as part of the machinery of public administration." They have a "new political organization," a program of "social reconstruction" and are "His Majesty's Opposition."[6]

To an American, even more significant than the political organization is the progress towards consolidation and central control of local or sectional unions. The American labor movement, from 1881 to 1886, copied the British movement. The former "Federation of Organized Trades and Labor Unions" was merely a British Trades Union Congress with its annual convention and its "parliamentary committee." In 1886 this was changed, because it broke down. The "legislative" programs were relegated, for the most part, to fifty state federations, and the American Federation of Labor became a centralizing body determined to consolidate the labor movement and drive out "dual" unions. So that instead of Britain's 1100 "financially distinct organizations,"[7] America has scarcely 150.

The British Trades Union Congress has remained, as the Ameri-

[5] P. 1, 22, and elsewhere.

[6] P. v.

[7] P. 547.

can one was before 1886, a political body in the legislative sense, and it was but a short step to construct out of its "parliamentary committee," a parliamentary representation committee in 1901 and a political party in 1906. The American Federation of Labor, for twenty-five years, has been an economic organization, and would probably dissolve into hundreds of local and sectional societies, like the British, if it "went into politics."

The serious predicament in which British trade-union officials are placed by their double duties as members of Parliament and managers of unions is very evident in the detailed account given by the Webbs and by their own advice to the unions to separate the two positions.[8] The proposed separation would probably result in the distinction, with which we are already familiar, between the "labor politician" and the "labor leader."

The amalgamations going on in the British trade union world are significant. The total number of distinct organizations remains about the same, since new ones start up; but, whereas in 1890 there were only two or three unions with over 50,000 members, there are now nearly a dozen, each with more than a quarter million members. Probably five sixths of all the trade-union membership is found in a hundred principal societies.[9] The amalgamations that have occurred have been mainly in mining and railway service; yet their incompleteness is shown by the fact that there are even yet at least forty separate trade unions not affiliated with the Miners' Federation,[10] each of them including classes of workers long since absorbed in the United Mine Workers of America. The general impression that one gets from these most valuable pages of the Webbs' *History* is that of weakness of British unionism in matters of wages and hours of labor, through collective bargaining, before the present movement of amalgamation, partly as cause and partly as effect of its organization as a Trade Union Congress for legislative and political purposes. They have gained greater political influence and apparently greater support of public opinion than American unions, but not until the present amalgamations have they gained relatively as much through direct negotiations with employers. It would seem, too, that the movements of gild socialism and shop stewards[11] are an outcome

8 P. 701.
9 P. 547.
10 P. 550.
11 P. 489.

of this weakness. Each of these is definitely a reaction against the combined political and industrial leadership of the unions of Great Britain.

Here the discussion by the Webbs is keen and important.[12] They give a historic review of the oscillations of British organization, now swinging towards consumer's organizations, now towards producer's organizations, and they make a distinction of fundamental and conclusive value between the two. In this they revise somewhat their analysis of 1897, in *Industrial Democracy*, in order to meet the new gild socialism half way. Yet fundamentally their position remains the same. "Producer's organizations" whether trade unions or "gilds," tend towards exclusiveness, for they produce only one product, as a rule, and through control of that product they can command the services of all other producers. They tend towards monopoly. But consumers cannot tend to monopoly; their strength as an organization is greater by opening their doors. The conclusion is that the supreme government of industry, as of the nation, must be in the hands of consumers, either parliament, municipal bodies, or consumers' societies. Private profits must be eliminated and private ownership, for the most part, abolished, but the government of industry must not be turned over to producers—gild socialists—but kept in control of consumers. Yet producers must be organized to deal with the organized consumers. Certain concessions, which, however, are not quite clear, are offered to the "gildsmen" by way of representation on boards of directors, but otherwise the consumers and not the producers are to control the socialist commonwealth.

JOHN R. COMMONS.

University of Wisconsin.

Organized Labor in American History. By FRANK TRACY CARLTON. (New York: D. Appleton and Company. 1920. Pp. 313.)

Although the book is designated by the author as a short history of the American labor movement and the part the wage-earner has played in the industrial, social, and political evolution of the nation, the bulk of it is devoted to a consideration of certain problems more or less closely connected with organized labor. The purpose of the author is to present the background concerning

[12] Pp. 660-718.

which knowledge is necessary if any constructive plan is to be made for better relations between capital and labor.

After a short introductory chapter the topics discussed are: epochs in the history of organized labor; adoption and interpretation of the constitution; the free school and the wage earner; land reform and the wage earner; labor legislation and the wage earner; labor parties, socialism, direct action, and progressive movement; the ideals of the wage earner; recent pre-war tendencies; and, the war and after. Epochs in the History of Organized Labor is a clear and concise outline of American industrial and labor history and is perhaps the best chapter in the book. Concerning the chapters on the Constitution, Free Schools, and Land Reform, the question might be raised as to the appropriateness of their inclusion. Especially is this true in regard to the discussion concerning the adoption and the interpretaton of the Constitution which is simply a rehash of the now familiar charge that the Constitution was written and adopted through what amounted to a conspiracy on the part of the propertied classes. The argument is interesting but not convincing and shows lack of historical perspective. Too much is read back from present-day conditions. The difficulty of amendment is stressed but the recent passage of the Sixteenth, Seventeenth, and Eighteenth Amendments has led the author to modify somewhat his ideas on that subject. The Constitution, of course, is not sacrosanct and can be changed; but that universal manhood suffrage did not exist at the time of its adoption is an argument neither for nor against it. At any rate, the chapter is based on an idealistic doctrinaire theory and has little relation to the subject of the book.

The matter in the other chapters is, however, more closely connected with the subject of the book. Concerning labor legislation, after tracing its development, the point is made that if it is to accomplish the purpose for which it was ostensibly passed labor legislation must be supported by efficient and sympathetic administration. This fact has been recognized and so through union efforts a considerable number of union men are holding administrative offices in the federal and state service. It is said that two rather antagonistic results will follow. In the first place, the administration of labor laws will be more satisfactory to the wage-earning group than is the case when all administrative positions are filled by persons antagonistic or indifferent to the aspirations of the workers as a class. In the second place, however, as

soon as a union man gets a political appointment he is in danger of losing his enthusiasm for unionism. Promotion in industry and political preferment seem to be the means of satisfying the ambitious and modifying the radical. The man who is being promoted or who sees a political job dangling before his eyes has an incentive for conservatism.

Considerable emphasis is placed in various chapters on the difference between business unionism organized along craft lines and industrial or radical unionism. The industrial unionist and many old-line trade unionists are abandoning old and familiar watchwords and traditional policies. The solidarity of the wage-earning class is being stressed. Professor Carlton says:

> Not only has industrial integration or combination furnished an incentive and a reason for the partial erasure of craft differences and demarcations, but the shortsighted and fatuous policy of many associations of employers, such as, for example, that of the National Association of Manufacturers, is driving many trade union men into a hard and coherent mass union in which trade demarcations count for little. And the bitter, unreasoning, archaic hatred and opposition of many members of such associations do but furnish the fuel which heats the melting pot and reduces the crystallized trade unions to the amorphous mass union. These gentlemen are in reality the promoters par excellence of revolutionary industrial unionism and of impossibilist socialism.

The changes brought about before and after the war are emphasized in the last two chapters. Among these may be mentioned a tendency toward amalgamation of allied trades, the organization of unskilled workers, and the demand for some participation in the management of industry.

Aside from the strictures noted, this book is a substantial piece of work. One of its chief merits is that it is based on an accurate knowledge of the ideals and policies of organized labor.

George M. Janes.

Washington and Jefferson College.

NEW BOOKS

Allen, H. J. and Gompers, S. *The Allen-Gompers debate.* (New York: Dutton. 1920.)

Ayusawa, I. F. *International labor legislation.* Columbia University studies in history, economics, and public law. (New York: Longmans, Green. 1920. Pp. 258.)

Traces the origin and development of international labor legislation from the time of Owen (1818), with chapters on progress

toward international agreements (1890-1900), labor conferences and treaties (1900-1913) and the labor development of the world war. Part II deals with the difficulties in international labor legislation and part III with the Washington conference of 1919 including a summary of the discussion of the eight-hour day and the employment of women and children.

Brauer, T. *Das Recht auf Arbeit.* (Jena: Fischer. 1919. Pp. 52. 2.40 M.)

Berriman and others. *Industrial administration. A series of lectures.* (New York: Longmans. 1920. Pp. vii, 208. $3.)

Contents: Social obligations of industry to labour, by B. S. Rowntree; The applications of psychology to industry, by T. H. Pear; Education as a function of management, by A. E. Berriman; Occupational diseases, by T. M. Legge; Atmospheric conditions and efficiency, by L. Hill; Industrial councils and their possibilities, by T. B. Johnston; Training for factory administration, by St. G. Heath; Industrial fatigue, by A. F. S. Kent.

Black, F. R. *Should trade unions and employers' associations be made legally responsible?* First prize essay of National Industrial Conference Board, 1919-1920. Special report number 10, June, 1920. (Boston: Nat. Indus. Conference Board. 1920. Pp. iv, 35.)

Bloomfield, D. *Labor maintenance.* (New York: Ronald. 1920. $5.)

Broecker, P. *Die Arbeitnehmerbewegung.* (Hamburg: Deutschnationale Verlagsanstalt. 1920. Pp. 114.)

Commons, J. R. and Andrews, J. B. *Principles of labor legislation.* (New York: Harper. 1920. Pp. xii, 559.)

Fay, C. N. *Labor in politics of class versus country. Considerations for American voters.* (Cambridge: University Press. 1920. Pp. 284.)

A frank and vigorous criticism of the policies of organized labor. The author refers to the difficulties he has met in securing the prompt publication of his views and the book is consequently privately printed. The author's address is 205 Brattle Bldg., Cambridge, Mass.

Fish, E. H. *How to manage men: the principles of employing labor.* (New York: Engg. Mag. Co. 1920. Pp. xii, 337.)

Foster, W. Z. *The great steel strike and its lessons.* With introduction by J. A. Fitch. (New York: Huebsch. 1920. Pp. ix, 265. $1.75.)

This book by the leader of the recent steel strike, in spite of its lurid rhetoric, extreme statements, and partisan viewpoint, throws a good deal of light on labor conditions in the steel industry. Whatever the truth underlying the contentions made, the fact seems to remain that one extreme breeds its opposite extreme. The narra-

tive shows clearly that underlying conditions and not merely outside agitators were the cause of the strike. The twelve-hour day, the seven-day week, the twenty-four hour shift, autocratic methods of many employers, and lack of any voice in fixing wages or conditions seem to be the real causes of the strike. Mr. Foster's threats as to a future strike may seem crude and weak and yet the fundamental issue of collective bargaining is the root of the matter and is bound to come up again. GEORGE M. JANES.

FRANKEL, L. K. and FLEISCHER, A. *The human factor in industry.* (New York: Macmillan. 1920. Pp. xi, 366. $3.)

Contains chapters on hiring and holding of labor, education, working hours and conditions, medical care, method of remuneration, refreshment and recreation of employees, insurance, savings and loans, and organization of a department of labor. There are twelve pages of bibliographical references. The volume provides an up-to-date summary of current practice.

FROST, S. *Labor and revolt.* (New York: Dutton. 1920.)

GOMPERS, S. *Labor and the employer.* Compiled and edited by H. ROBBINS. (New York: Dutton. 1920. Pp. vii, 320. $3.50.)

GOODRICH, C. L. *The frontier control: A study of British workshop politics.* (New York: Harcourt, Brace & Howe. 1920.)

HAMMOND, M. B. *British labor conditions and legislation during the war.* Carnegie Endowment for International Peace preliminary economic studies of the war, no. 14. (New York: Oxford Univ. Press. 1919. Pp. ix, 335.)

This volume is the most recent and most complete account of British labor in war time that has yet been issued. Professor Hammond's foreword calls attention to the fact that his study is definitely, as the title of the series indicates, a preliminary one. He wisely points out the impossibility of trying to record the important happenings in a great war and showing the causal connection of these events while the war is still in progress. He has prepared therefore a narrative of events rather than a critical interpretation of these events.

In addition to two valuable chapters dealing with The Social Background and English Industry and Labor at the Outbreak of the War, the volume covers the following subjects: industrial panic and readjustment, the government and the trade unions, the munitions of war acts, the supply and distribution of labor, the dilution of labor, wages, cost of living, hours of labor, welfare work and unemployment, and industrial unrest. The study deserves amplification in a later volume. EDITH ABBOTT.

HARD, W. and LEACH, P. R. *Labor in a basic industry.* (Chicago: Daily News. 1920. Pp. 34. 25c.)

HODGKIN, J. E., ed. *Quakerism and industry.* (Darlington: North of England Newspaper Co. Pp. 152. 4s.)

HOWARD, S. E. *The movement of wages in the cotton manufacturing industry of New England since 1860.* (Boston: National Council of American Cotton Manufacturers. 1920. Pp. 99. $1.25.)

Address the author at Princeton University, Princeton, N. J.

KELLY, R. W. *Training industrial workers.* (New York: Ronald Press Co. 1920. $5.)

KIRKALDY, A. W., editor. *Industry and finance. (Supplementary volume.) Being the results of inquiries arranged by the Section of Economic Science and Statistics of the British Association, during the years 1918 and 1919.* Published by authority of the Council of the British Association. (London: Pitman. 1920. Pp. 150.)

LEVERHULME, W. H. L. *The six-hour shift and industrial efficiency.* (New York: Holt. 1920. Pp. viii, 265. $2.50.)

An American and slightly abridged edition, prepared by Mr. Frank Tannenbaum, of the English volume *The Six-Hour Day.* There is a brief introduction by Professor Seager.

LITCHFIELD, P. W. *The industrial republic: A study in industrial economics.* (Boston: Houghton Mifflin. 1920. Pp. 95.)

The author discusses the need of giving workmen a voice and share in industrial management.

LLOYD, E. F. *The closed union shop versus the open shop: their social and economic value compared.* A second prize essay of the National Industrial Conference Board, 1919-1920. Special report number 11. (Boston: Nat. Indus. Conference Board. 1920. Pp. vi, 27.)

LÜDERS, M. E. *Die Entwicklung der gewerblichen Frauenarbeit während des Krieges.* (Munich: Duncker & Humblot. 3 M.)

MENDELSOHN, S. *Labor's crisis: An employer's view of labor problems.* (New York: Macmillan. 1920. Pp. 171. $1.50.)

RICHARDS, C. *A history of trades councils, 1860-1875.* (London: Labour Research Department. 1920. 1s.)

ROBINSON, J. S. *The Amalgamated Association of Iron, Steel and Tin Workers.* Johns Hopkins University studies in history and political science, series XXXVIII, no. 2. (Baltimore: Johns Hopkins Press. 1920. Pp. vii, 166.)

Based on documentary material furnished by the Library of Johns Hopkins University, the files of the Amalgamated Association, and personal interviews. An intensive study of one of the largest trade unions, covering its history, government, jurisdiction, finances, the benefit system, standard rate, working day, restriction of output, machinery, apprenticeship and the helper system, and collective bargaining.

ST. LEON, M. *Syndicalisme ouvrier et syndicalisme agricole.* (Paris: Payot. 1920. Pp. 160.)

SHEFFERMAN, N. W. *Employment methods.* (New York: Ronald. 1920. $5.)

SCHIFF, W. *Der Arbeiterschutz der Welt.* (Tübingen: Mohr. 1920. 36 M.)

SOLANO, E. J., editor. *Labor as an international problem.* (New York: Macmillan. 1920.)

STOREY, M. *Problems of today.* (Boston: Houghton Mifflin. 1920. Pp. 258.)

Chapter 4 (pp. 149-202) deals with the labor question, citing examples of tyranny of trade unions; it agrees that excessive profits should be curtailed and that the workman should have a voice in the conduct of business.

WARNE, F. J. *The workers at war.* (New York: Century. 1920. Pp. 250. $3.)

WEBER, A. *Der Kampf zwischen Kapital und Arbeit.* Second edition. (Tübingen: Mohr. Pp. xix, 448. 1920.)

WILLIAMS, W. *What's on the worker's mind?* (New York: Scribner. 1920.)

Conférence internationale du travail. Draft conventions and recommendations adopted by the conference during its second meeting, 15 June-10 July, 1920. (London: Secretary-General of the League of Nations. Sunderland House, Curzon St. 1920. Pp. 19.)

The cost of living among wage earners, Cincinnati, Ohio. Special report number 13. (New York: Nat. Indus. Conference Board. 1920. Pp. 18.)

The hours of work problem in five major industries . . . Boston. Research report number 27. (New York: Nat. Indus. Conference Board. 1920. Pp. x, 91.)

Independent labour party (Great Britain.) Report of the twenty-eighth annual conference held at Glasgow, April, 1920. (London: 9 Johnson's Court, Fleet St. Pp. 128.)

Individual differences in output in the cotton industry. Industrial Fatigue Research Board report no. 7. (London: H. M. Stationery Office. 1920. 6d.)

International Union of Mine, Mill and Smelter Workers. Official proceedings of the twenty-third consecutive and third biennial convention held at Denver, Colorado. (Denver: E. Mills, 509 Denham Bldg. 1918. Pp. 492.)

The labor audit, a method of industrial investigation. Employment management series, 8. (Washington: Supt. Docs. 1920. Pp. 48.)

Labour legislation in Canada, for the calendar year 1919. (Ottawa: Dept. of Labour. 1920. Pp. 181.)

Lasting lessons of the labor crisis. A direct message from Secretary

Lane of the President's Cabinet for engineers and industrial executives. (New York: Engg. Mag. Co. 1920. Pp. 27.)

The miners' case. Facts about the coal dispute. (London: Labour Research Dept. 1920. 2d.)

Report of court inquiries, concerning transport workers—wages and conditions of employment of dock labor. (London: Great Britain Ministry of Labour. 1920.)

Report of the general executive board of the Amalgamated Clothing Workers of America to the fourth biennial convention, Boston, May 10-15, 1920. (New York: 31 Union Sq. 1920. Pp. 233.)

Report on the steel strike of 1919. By the Commission of Inquiry, the Interchurch World Movement. With the technical assistance of the Bureau of Industrial Research, New York. (New York: Harcourt, Brace, and Howe. 1920. Pp. viii, 277.)

See note in the Documents section of this Review.

Russia: Labour conditions in Soviet Russia. Systematic questionnaire and bibliography. Prepared for the Mission of Enquiry on Russia. (London: Harrison. Pp. 294, cxliv. 7s. 6d.)

The speed of adaptation of output to altered hours of work. Industrial Fatigue Research Board report no. 6. (London: H. M. Stationery Office. 1920.)

A study of the labor movement by the statistical division of the factory accounting department. (Akron, O.: Goodyear Tire & Rubber Co. 1920. Pp. vii, 121.)

Unwarranted conclusions regarding the eight-hour and ten-hour workday: A critical review of "A comparison of an eight-hour and a ten-hour plant, U. S. Public Health Bulletin no. 106." Special report no. 14. (Boston: National Industrial Conference Board. 1920. Pp. v, 21.)

Money, Prices, Credit, and Banking

Present and Past Banking in Mexico. By Walter Flavius McCaleb. (New York: Harper & Brothers. 1920. Pp. xxii, 269. $2.00.)

Dr. McCaleb's study is the first to be published of the researches carried on under the auspices of the Foundation for the Study of Mexican Affairs established by Mr. E. L. Doheny in 1917. In the words of the author, the book is an attempt "to trace the history of the credit institutions of the country from their initial stages down to the present time," and "to stress the salient facts in the extraordinary story of the rise and fall of banking in our neighboring republic" (p. xii).

Dr. McCaleb has succeeded in furnishing the only comprehensive account of banking developments in Mexico. Conant's *The Banking-System of Mexico*, published by the National Monetary Commission in 1910, is almost entirely a consideration of developments under Limantour's banking law of 1897. Conant's description of banking organization and functions as they were before 1910 is more complete than that contained in the book under review but antedates the eventful period since the expulsion of Diaz in 1911 which has witnessed the decline and fall of credit institutions in Mexico.

Dr. McCaleb has based his study both upon such documentary data as were available and upon data collected in the course of a field investigation in the United States and Mexico. He has conferred with many who have been engaged in banking and other business in Mexico and with officials of the several Mexican administrations. The result of his investigations is a well proportioned and judicial survey of the subject. The volume should be of interest to many interested in Mexican questions other than banking, since the data there presented assist the reader to appraise the policies followed in the régimes of Diaz and his successors.

The chapters devoted to the revolutionary period (pp. 195-260) are likely to be of chief interest to most readers. According to our author, Madero "levied upon the banks with callous hand," and his policy meant "destruction by virtue of looting or through dissipation of . . . assets" (p. 203); Huerta levied forced loans, making the banks take national bonds (which Huerta had been unable to place abroad) in exchange for bank notes (pp. 215-221); Villa seized cash and bank notes (p. 217); while Carranza forced the banks into liquidation, annulled most of the concessions, and borrowed their specie reserves to meet the deficits of the Treasury (pp. 230 *et seq.*). Of especial interest is a memorandum, cited in full, prepared for Dr. McCaleb by Señor F. G. Camacho, chief of the department of banking under the Carranza administration, in which the policy of that administration toward the banks is set forth and explained (pp. 251-55).

The reviewer finds little from which he would dissent except on certain points (not of first importance to the main argument) respecting monetary questions. The statement that, owing to the monetary reform of 1905, "the wage scales had need to be revised in all their schedules, running through agriculture, mining,

and industry; prices of goods in every mart had to be overhauled, tariff schedules and taxes of all types had need to be revamped to meet the changed conditions" (p. 160) is not supported by evidence in the book. The reviewer is not aware of facts which justify such a broad statement. Indeed, Dr. McCaleb says on page 195 that the transition from a silver to a gold standard "on the surface, appeared to have been made without a ripple of disturbance." On page xvii the author characterizes as "an age of barter" the economy of a hundred years ago in Mexico, when transactions were effected with money rather than with credit. This characterization would not seem apt if, as the author points out in the same paragraph, money was in general use. The meaning of the expression "when the point of currency saturation was being reached in the economic dispensations of the people" (p. 135) is not clearly apparent. The fact that "the subsidiary coins of the banks of the country fell from £4,657,915 in October, 1911, to £4,419,681 in December of the next year" is mentioned "as further evidence of demoralization" in the banking situation under Madero (p. 207). If the figures be correctly printed, such a slight decrease could hardly be taken as indicative of demoralization. Most economists would probably dissent from the author's statement that "economists still wander with hazy concepts" in the field of money and foreign exchange (p. 199).

It is not easy for American readers to understand the statements of Mexican banks because of the differences in the terminology used, which grow largely out of differences in banking practice. Dr. McCaleb has done much to make understandable the statements which he cites. The use of "accounts current debtor" and "accounts current creditor," which arises from the practice of making loans in the form of overdrafts, however, can hardly be said to be "almost exclusively Mexican" (p. 139), since similar accounts appear in the statements of banks in the other countries in which overdraft loans are common (including such important countries as France and Spain). The Spanish word *reservas* is translated "reserves" (*e.g.*, pp. 88-90, 101), but the corresponding equivalent in American banking terminology is "surplus." On page 13, "1819" should read "1919."

Arthur N. Young.

Washington, D. C.

NEW BOOKS

ANDERSON, B. M. *The fallacy of "The stabilized dollar."* (New York: Chase National Bank. 1920. Pp. 16.)

BENDIXEN, F. *Geld und Kapital.* Second edition. (Jena: Fischer. 1920. Pp. vi, 218.)

CORRÉARD, J. *Des finances modernes pour vivre. L'organisation internationale des changes et les emprunts aux banques.* (Paris: Bossard. 1920. Pp. 56.)

DAMIRIS, C. J. *Le système de circulation fiduciaire et de réglementation du change de la Grèce; l'art. 8 § A de la loi du 19 mars 1910.* Two volumes. (Paris: Giard et Brière. 1920. Pp. 363; 386.)

EVANS, S. *The gold premium.* (Johannesburg: McKowen & Radford. 1920. Pp. 18.)

FRIDAY, D. *Traction rates in New York City: A necessary step in price revision.* (New York: Thompson & Black, 44 Wall St. 1920. Pp. 23.)

A brief study of recent price changes and the need of revision of prices charged by traction companies. Comparisons are made with changes in income of other industries.

GERMAIN-MARTIN. *Les problèmes du crédit en France.* (Paris: Payot. 1919. Pp. 281.)

GODFREY, C. E. *The Mechanics Bank 1834-1919, Trenton, New Jersey.* (Trenton: Mechanics Bank. 1919. Pp. 164.)

A history of a bank organized in 1834. Tells the story of its origin and subsequent development. Supplemented by interesting illustrations.

HARDING, W. P. G. *The functions and policies of the Federal Reserve Board.* (Cleveland: Chamber of Commerce. 1920. Pp. 18.)

KEMMERER, E. W. *High prices and deflation: An explanation of inflation and the rise in the cost of living since 1913; why prices must ultimately come down and the policy to be pursued in order to bring about deflation.* (Princeton, N. J.: Princeton Univ. Press. 1920. Pp. 86. $1.25.)

A revision and reprint of three articles recently published by the Bankers' Statistics Corporation of New York City. A brief and critical analysis.

KITSON, A. *Money problems. With a criticism by* H. WITHERS. (Stamford: Dolby Bros. 1920. Pp. 141.)

KNIFFIN, W. H. *The business man and his bank.* (New York: McGraw-Hill. 1920. Pp. xii, 278. $3.)

KOEHLER, G. *The passing of the gold reserve: A study in national finance and currency.* (Washington: Importers First Aid Service. 1920. Pp. iv, 87. $3.)

LE POITTEVIN, HAUTIER, SALOMON. *Théorie des changes, arbitrages et parités.* (Paris: Rivière. 1920. Pp. 188. 18 fr.)

LITMAN, S. *Prices and price control in Great Britain and the United States during the World War.* Carnegie Endowment for International Peace. Preliminary economic studies of the war, no. 19. (Washington: Oxford Univ. Press. 1920. Pp. ix, 331.)

MANES, A. *Staatsbankrotte: wirtschaftliche und rechtliche Betrachtungen.* Second edition, revised. (Berlin: Karl Siegismund. 1919. Pp. 275. 12 M.)

MOULTON, H. G. *The financial organization of society.* (Chicago: Chicago Univ. Press. 1920. $4.)

PHILLIPS, C. A. *Bank credit. A study of the principles and factors underlying advances made by banks to borrowers.* (New York: Macmillan. 1920. Pp. xiv, 374. $4.)

RAE, G. *The country banker; his clients, cares and work; from an experience of forty years; with an introduction and notes by* F. E. STEELE. New edition. (New York: Scribner. 1920. Pp. 21, 324. $2.)

ROSENTHAL, H. S. *Cyclopedia of building, loan and savings associations: how to organize and successfully conduct them.* (Cincinnati: Amer. Bldg. Ass'n News Co. 1920. Pp. xi, 500.)

This is the fourth edition, revised and enlarged. The third edition was published in 1911.

SEAGER, H. R., editor. *Inflation and high prices: causes and remedies.* (New York: Acad. of Pol. Sci. 1920. Pp. vi, 144. $3.25.)

A series of addresses and papers among which are: Causes and progress of inflation, by E. W. Kemmerer; Treasury methods of financing the war in relation to inflation, by R. C. Leffingwell; The relation of the federal reserve system to inflation, by H. P. Willis; Remedies for inflation with special reference to the French situation, by M. Casenave; Remedies for inflation with special reference to the Italian situation, by B. Attolico; Inflation as a world problem and our relation thereto, by P. M. Warburg.

STRAKOSCH, H. *The South African currency and exchange problem.* (Johannesburg: Central News Agency. 1920. Pp. 34. 6d.)

TAYLOR, A. E. *Influence of depreciation of exchange on agricultural production.* Yearbook separate 807, Department of Agriculture. (Washington: Supt. Docs. 1920. 5c.)

WILLIAMS, J. H. *Argentine international trade under inconvertible paper money.* (Cambridge: Harvard Univ. Press. 1920.)

YORK, T. *Foreign exchange: theory and practice.* (New York: Ronald. 1920. Pp. 182.)

The author's purpose is to explain the operation of the exchanges between gold standard countries under normal financial conditions.

In the introductory chapters he discusses the meaning of the gold standard, or what constitutes money in a gold standard country. A hypothetical method of treatment is proposed in the theoretical part of the discussion. In the last few chapters the hypothetical assumptions are abolished and attention is given to practical foreign exchange operations as conducted in the New York market.

America's opportunity. (New York: Mechanics & Metals National Bank. 1920. Pp. 85.)

Changes in the cost of living, July, 1914-March, 1920. Research report no. 28. (Boston: National Industrial Conference Board. 1920. Pp. viii, 24.)

Changes in cost of living and prices, 1914 to 1920. (Washington: Bureau of Applied Economics. 1920. Pp. 24.)

The cost of living among wage-earners. North Hudson County, New Jersey, January, 1920. Special report no. 7. (Boston: National Industrial Conference Board. 1920. Pp. 20.)

Currencies after the war. A survey of conditions in various countries compiled under the auspices of the International Secretariat of the League of Nations. (London: Harrison. 1920. Pp. xvi, 234. 7s. 6d.)

English public finance from the revolution of 1688, with chapters on the Bank of England. (New York: Bankers Trust Co. 1920. Pp. 241.)

Inflation of English bank credits is a large factor in creating level of high prices.

Foreign exchange. (Boston: National Shawmut Bank. 1920. Pp. 17.)

Organization plans of the International bank of Washington, D. C.; a commercial bank to be organized, capitalized and supervised under the banking laws of the United States government. (Washington: International Bank. 1920. Pp. 22.)

Sixth annual report of Federal Reserve Board, covering operations for calendar year 1919. (Washington: Federal Reserve Board. 1920. Pp. vi, 553. 50c.)

Public Finance, Taxation, and Tariff

NEW BOOKS

ARMITAGE-SMITH, G. *Principles and methods of taxation.* Seventh edition. (London: Murray. 1919. Pp. 204. 5s.)

ASHLEY, W. *The tariff problem.* Fourth edition, revised. (London: King. 1920.)

BURGESS, W. R. *Trends of school costs.* (New York: Russell Sage Foundation. 1920. Pp. 139. $1.)

The chapter headings are: The mounting cost of education; Index numbers for teachers' salaries; Teachers' salaries and the cost of living; Salaries of teachers and of other workers; The trend of building costs; Doubling the school budget; Sources of income.

Cabiati and others. *Imposta sul patrimonio.* (Milan: Il Contribuento Italiano. 1920. 10 l.)

Calmes, A. *Der Zollanschluss des Grossherzogtums Luxemburg und Deutschland (1842-1918).* Vol. 1, *Der Eintritt Luxemburgs in den Deutschen Zollverein (1839-1842).* Vol. 2, *Die Fortdauer des Zollanschlusses und seine Lösung.* (Frankfurt-a-M: Joseph Baer & Co. 1920. Pp. 268; 252.)

Einaudi, L. *Il problema delle finanze post-bellica.* (Milan: Fratelli Treves. 1919.)

Frola, G. *Imposta sugli aumenti di patrimonio derivanti dalla guerra.* (Torino: Lattes. 1920. 5 l.)

Fisk, H. E. *English public finance from the revolution of 1688, with chapters on the Bank of England.* (New York: Bankers Trust Company. 1920. Pp. 241.)

Haas, A. L. and Monteaux, B. *Les impôts en France: impôts anciens, impôts nouveaux. Loi du 25 juin 1920.* (Paris: Giard & Brière. 1920. Pp. 194. 5 frs.)

Kuczynski, R. *Ein Reichsfinanzprogramm für 1920.* (Tubingen: Mohr. 1920. Pp. 66. $4.)

Melchoir, C. *Deutschlands finanzielle Verpflichtungen aus dem Friedensvertrage.* (Berlin: Engelmann. 1920. Pp. 26.)

Plehn, C. C. *Introduction to public finance.* Fourth edition. (New York: Macmillan. 1920. Pp. xix, 446.)

Plehn, C. C. *British and American income and excess profits taxes compared.* (New York: Continental Ins. Co. 1920. Pp. 48.)

Raffalovich, A. *Le marché financier, des dettes publiques et l'inflation pendant la guerre 1914-1919.* (Paris: Alcan. 1920.)

von Tyszka, K. *Grundzüge der Finanzwissenschaft.* (Jena: Fischer. 1920. Pp. vii, 347.)

Zorn, J. *Thoughts on a capital levy.* (London: St. Clement's Press. 1920. Pp. 50. 2s.)

Increase of wealth (war). Report of committee on proposal for a tax on wartime increases of wealth. (London: H. M. Stationery Office. 1920. 1d.)

Proceedings of ninth state tax conference, Utica, N. Y., March 18 and 19, 1920. New York state tax bulletin, vol. 5, no. 3. (Albany: State Tax Dept. 1920. Pp. 273.)

The following papers are included: Tax legislation of 1919, by

C. J. Tobin; Problem of local expenditures, by W. P. Capes; The sources of revenue, by K. N. Robins; Equalization of assessments, by W. H. Maider; Full value assessment, by G. W. Sutton; Coöperation and standardization in local assessments, by L. K. Rockefeller; Lessons from other states, by C. C. Plehn; Assessment of tangible personalty, by G. B. Elwell; The personal income tax law, by M. Graves; The corporation franchise tax on income, by J. J. Merrill.

Proceedings of the National Industrial Tax Conference at Chicago, Illinois, April 16, 1920. Special report no. 9. (Boston: National Industrial Conference Board. 1920. Pp. 113.)

Contains an address by Professor Plehn, pp. 23-45.

Tax law of the state of New York, being l. 1909, chap. 62, entitled "an act in relation to taxation, constituting chapter sixty of the consolidated laws" with amendments to the end of the legislative session of 1920. (Albany: Bender. 1920. Pp. 314. $3.)

Social Problems and Reforms

Major Social Problems. By Rudolph M. Binder. (New York: Prentice-Hall, Inc. 1920. Pp. 324.)

Professor Binder approaches what he deems to be the major social problems, especially in the form which he finds them assuming since the World War. His general standpoint is that "the aim of society is the development of a free, self-reliant man," not free, indeed, from social control, but free through social coöperation to attain a full and complete life as an individual whose interests are at the same time fundamentally social. The starting point of the book, that which is really the crux of every modern social problem, is the fact that while men have come to know more or less vaguely that this is the test of progress, social institutions, in which and by which men ought to be finding their free self-realization, are yet too much the unaltered products of tradition. They are not the efficiently molded realities that modern knowledge could make them if we had the courage of our ideals. Modern men's vision of the meaning of their self-fulfilment has grown so far ahead of the possibilities of their social environment that they have become restless and unhappy. "The dead hand of the past still holds them in the clutches of antiquated institutions whose inertia prevents the remodelling of life according to present day conceptions."

Professor Binder is convinced that the only remedy is a fearless revision of social organization by an application of the knowl-

edge that the social sciences already possess, but which is not now sufficiently utilized. The major tasks arising out of the application of this knowledge involve the family, eugenics, the development of women's true function in the social order, the spiritualization of work, better health conditions, the social function of religion, the socialization of business, the function of nationalism and internationalism, and the reconstruction of education—all these tasks forming the "major social problems" which give the book its title.

Professor Binder attacks these problems with a sound psychology, a definite ethical viewpoint, which might be called social self-realization enlightened with biological concepts, and an informing knowledge of current social facts and tendencies. He successfully avoids the futile urging of merely utopian reforms, although his ultimate ideal is utopian enough, as any ideal should be. The book is not a new contribution to knowledge (nor does it assume to be), but rather it is an efficient presentation of the best thought on social problems now coming to self-consciousness everywhere among progressive minds. The book is intended for the untechnical reader as well as suited to the use of college classes, for which its value is enhanced by references and questions on each chapter in the appendix.

JAY WILLIAM HUDSON.

University of Missouri.

NEW BOOKS

ANTHONY, K. *The endowment of motherhood.* (New York: Huebsch. 1920. Pp. 75. 50c.)

BERRY, R. A. and PORTEUS, S. D. *Intelligence and social valuation, a practical method for the diagnosis of mental deficiency and other forms of social inefficiency.* (Vineland, N. J.: The Training School. 1920. Pp. 100.)

BROGLIE, C. *Die soziale Frage.* (Dresden: Globus-Verlag. 1920. Pp. 96.)

BURY, J. B. *The idea of progress; an inquiry into its origin and growth.* (New York: Macmillan. 1920. Pp. 377. $5.50.)

CLEMENT, I. *Visualizing citizenship.* Special report no. 4. (New York: Municipal Reference Library. 1920. Pp. 25.)

COX, H. *Economic liberty.* (New York: Longmans. 1920. Pp. vii, 263. $2.75.)

Emphasizes the virtue of economic liberty and urges that where

restraint is needed it be undertaken by the "persuasive power of the individual conscience" rather than by the power of the state. Among the topics discussed are the ethics of property, the ethics of socialism, the right to work, the basis of free trade, and nationalization. Several of the chapters have been previously published in magazines, and more particularly in the *Edinburgh Review.*

Dabney, A. D. *Liquor prohibition.* (Charlottesville, Va.: Michie Co. 1920. Pp. lvi, 477. $6.)

Drachsler, J. *Democracy and assimilation: the blending of immigrant heritages in America.* (New York: Macmillan. $2.75.)

Ellwood, C. A. *The social problem: a reconstructive analysis.* Revised edition. (New York: Macmillan. 1919. Pp. xii, 289. $1.75.)

The original edition of Professor Ellwood's illuminating contribution to the study of the problem of living together in human society is so familiar to all those interested in the social sciences that a review of the new issue may be confined to comments on those particular features which are new.

The most important of these is the introduction of an additional chapter on The Educational Element in the Social Problem. This is a logical step, since the whole volume leads up to the climactic conclusion that the solution of the social problem lies almost entirely in education, which, nevertheless, was dismissed with very brief consideration in the first edition. Naturally, the sort of education which the author regards as particularly pertinent for the purpose in question is education in the social sciences. He points out that the orthodox education of the past has strikingly ignored the necessity of widespread knowledge on the most important facts of life—those connected with the living together of men in human societies. He observes that one probable reason for this has been the fear that such knowledge, if acquired, "might work merely to maintain an established social order or even to sanction abuses of power," but regards this fear as groundless in a society where both the political organization and the education itself are fully democratic. He also emphasizes the conviction that if sociological education is to be effective it must be something more than merely scientific, in the old-fashioned sense of the word; it must include the inculcation of social ideals and the development of the spirit to cherish and attain these ideals. In other words, it must have a moral as well as an intellectual content. But the moral ideas must rest firmly on the basis of established fact. The central ideal must be that of service.

Other minor changes are the alteration of the subtitle from "A Constructive Analysis" to "A Reconstructive Analysis," (obviously to fit the new era), a rewriting of the passage on a League of Nations, and an amplification of the closing chapter to include Novicow's concept of "mutualism."

Professor Ellwood always writes sanely and with much com-

mon sense and this book can be of much service to any one who is seeking his way through the present tangle of social uncertainties.

HENRY PRATT FAIRCHILD.

FARIES, J. C. *Three years of work for handicapped men.* (New York: Institute for Crippled and Disabled Men, 101 East 23d St. 1920. Pp. 95.)

GODDARD, H. H. *Human efficiency and levels of intelligence.* (Princeton: Princeton Univ. Press. 1920. Pp. vii, 128. $1.60.)

"When one contemplates the enormous proportion of misfits that must exist in the industrial world and that such misfits mean discontent and unhappiness for the employee, one can but wonder how much of the present unrest in such circles is due to this fact. A man who is doing work that is well within the capacity of his intelligence and yet that calls forth all his ability is apt to be happy and contented, and it is very difficult to disturb any such person by any kind of agitation." In other statements, as well as this, Dr. Goddard points out the social nature of the problems of human efficiency. Although the book is not primarily written for business executives, it forces the business man to the recognition of his need of a social philosophy. For him there are also many valuable deductions if he reads with a practical imagination: economic losses through mental misfits; frequent changes of position by low grades; the development of socialistic, rather than social, ideas; the mental problems in the personnel department and in the business training school; and the general value of intelligence tests. Dr. Goddard writes in the same direct and clear manner which characterizes his other books, *Feeblemindedness, The Kallikak Family,* and *The Criminal Imbecile.* In the present volume Dr. Goddard keeps a bit more aloof from reference to the instincts than in his previous books. The executive will not wish to neglect the instinctive side of life, because even though the instincts may be, as Goddard contends, somewhat under control of the intelligence, they nevertheless play a large part in industry and urgently need to be understood. All who are interested in the human equation in industry will, therefore, be grateful for this happy trilogy, Tead's *Instincts in Industry,* Parker's *The Casual Laborer and Other Essays,* and Goddard's *Human Efficiency and Levels of Intelligence.*

CHARLES LEONARD STONE.

GOVE, G. and HEYDECKER, W. D. *Chamber of Commerce housing development.* (New York: American City Bureau. 1920.)

HART, J. K. *Community organization.* (New York: Macmillan. 1920. $3.25.)

HILL, D. S. *Introduction to vocational education, a statement of facts and principles related to the vocational aspects of education below college grade.* (New York: Macmillan. 1920. Pp. 483.)

HUDSON, J. W. *The college and new America.* (New York: Appleton. 1920. Pp. xi, 202. $2.)

KNOWLES, M. *Industrial housing.* (New York: McGraw-Hill. 1920. Pp. 408. $5.)

LEREDDE. *L'organisation de la lutte contre la syphilis.* (Paris: Musée Social. 1920. Pp. 22.)

PATRICK, G. W. *The psychology of social reconstruction.* (Boston: Houghton Mifflin. 1920.)

PHELAN, J. *Readings in rural sociology.* (New York: Macmillan. 1920.)

QUEEN, S. A. *The passing of the county jail; individualization of misdemeanants through a unified correctional system.* (Menasha, Wis.: Banta 1920. Pp. 156. $1.50.)

RAPPARD, W. E. *La Ligue des Sociétés de la Croix-Rouge.* (Paris: Musée Social. 1920. Pp. 25.)

REEVE, S. A. *Modern economic tendencies.* (New York: Dutton. 1920.)

ROSENBLATT, B. A. *Social Zionism.* (New York: American Jewish Weekly, 75 Fifth Ave. 1919. Pp. 151. 75c.)

SCHOOLING, W. *Value for money. The influence of wise spending on national prosperity.* (London: Pitman. 1920. Pp. 56. 2s. 6d.)

SEGSWORTH, W. E. *Retaining Canada's disabled soldiers.* (Ottawa: Dept. of Soldiers' Civil Reëstablishment. 1920. Pp. 193.)

TAYLOR, C. C. *The social survey, its history and method.* (Columbia, Mo.: Univ. Missouri. 1919. Pp. 91.

TOLSTOY, L. *A great iniquity.* The Freeman pamphlets. (New York: Huebsch. 1920. Pp. 38. 25c.)

WIGMORE, J. H. *Problems of law.* (New York: Scribner. 1920. Pp. 136.)

Contains three lectures: Problems of law's evolution; Problems of the law's mechanism in America; Problems of world-legislation and America's share therein.

WOOD, E. E. *The housing of the unskilled wage earner. America's next problem.* (New York: Macmillan. 1919. Pp. 7, 321.)

After examining the reports of housing conditions in various American cities, Mrs. Wood deals with the restrictive housing legislation of American states and cities, and with examples of model housing by limited dividend companies, employers of labor, and chambers of commerce. This is followed by an examination of governmental aid to housing in European countries and an examination of the beginnings of similar undertakings in this country, which are discussed under the heading "constructive housing legislation."

The objections to such legislation are briefly considered, and the book closes with an outline of a "comprehensive housing policy" for the United States, advocating the establishment of a national housing commission, the utilization of various funds for housing loans, the establishment of state housing and town planning boards. In general, Mrs. Wood's method is to state her problem briefly and then to give illustrations classified geographically, citing her references with some care.

The treatment of the subject is uneven. A large amount of work has evidently gone into the preparation of this volume and considerable literature has been examined and quoted. As a compilation, the book is unquestionably useful, as it makes quotations from a large number of reports which are not accessible to most students of this subject. Equally important documents to which Mrs. Wood apparently did not have access are, however, omitted. Foreign literature is apparently known to Mrs. Wood chiefly at second-hand. Her treatment of housing conditions in this country is not discriminating; for example, it includes a third-rate study in Texas, and excludes the much more detailed, scientific, and original studies by Carol Aronovici. The housing history is also decidedly uneven, omitting, for example, from the history of housing in Boston the admirable studies by Dwight Porter in 1887 and by H. K. Estabrook in 1900. The information on model tenements is much of it antiquated, no attempt apparently having been made to get the latest reports where only old reports are available in the libraries consulted by the author. The book is apparently addressed to housing reformers, and assumes the "welfare point of view." Some parts of the book will be intelligible only to members of the National Housing Association. For the above reasons, it would be valueless as a means of convincing chambers of commerce or legislative bodies of the importance of the measures advocated.

In spite of the above limitations and in spite of the author's failure to define some of the most important aspects of the housing movement and to treat the subject in its economic aspects, this book will have value to members of local housing improvement associations in this country as a compendium of information on the methods of housing reform which prevailed before the war.

JAMES FORD.

WOODBURY, R. M. *Industrial instability of child workers. A study of employment-certificate records in Connecticut.* (Washington: Children's Bureau. 1920. Pp. 86.)

Child-welfare programs. Study outlines for the use of clubs and classes. (Washington: Children's Bureau. 1920. Pp. 35.)

The church and industrial reconstruction; report of the committee on the war and the religious outlook. (New York: Association Press. 1920. Pp. 296. $2.)

Housing. Schemes submitted to the Ministry of Health by local

authorities and public utility societies up to the 27th of March, 1920. (London: H. M. Stationery Office. 1920. 1s.)

Juvenile delinquency: a selected bibliography. (New York: Russell Sage Foundation. 1920. Pp. 3. 10c.)

Report of the United States Housing Corporation. Vol. 1, *Organization, policies, transactions.* United States Department of Labor. Bureau of Industrial Housing and Transportation. (Washington: Supt. Docs. 1920. Pp. 391.)

Standard statistics of prostitution, gonorrhea, syphilis. (New York: American Social Hygiene Assoc. 1920. Pp. 22. 10c.)

Problems of population and parenthood; being the second report of and the chief evidence taken by the commission, 1918-1920. (New York: Dutton. 1920. Pp. 423. $10.)

Insurance and Pensions

NEW BOOKS

Barbour, R. P. *The agents key to fire insurance, concise and helpful information for agents and brokers regarding essentials of the business; includes a comprehensive collection of modern forms.* (New York: Spectator Co. 1920. Pp. iv, 321.)

Dingman, H. H. *Practical suggestions for the life insurance salesman.* (Syracuse: Author, Eastwood Sta. 1919. Pp. 142. $2.)

Fackler, E. B. *Notes on life insurance, the theory of life insurance practically explained; an elementary treatise on the principles governing life insurance, and their technical application.* (New York: Spectator Co. 1920. Pp. 205.)

Gros, F. *L'assurance: son sens historique et social.* (Paris: Bureau d'Organisation Economique, 124 rue de Provence. 1920. Pp. 312.)

Hoffman, F. L. *Failure of German compulsory health insurance; a war revelation.* (Newark, N. J.: Prudential Press. Pp. 20.)

Hoffman, F. L. *More facts and fallacies of compulsory health insurance.* Index. Revised, final edition. (Newark, N. J.: Prudential Press. Pp. 200.)

Hoffman, F. L. *Occupational diseases and their compensation, with special reference to anthrax and miners' lung diseases.* Revised and enlarged. (Newark, N. J.: Prudential Press. Pp. 45.)

Huebner, S. S. *Marine insurance.* (New York: Appleton. 1920. Pp. xiv, 265. $3.)

Marrin, O. A. *The standard fire insurance policy; three lectures.* (New York: Insurance Soc. of N. Y. Pp. 38.)

Newsholme, A. *Public health and insurance: American addresses.* (Baltimore: Johns Hopkins Press. 1920. Pp. xiv, 270.)

Parker, A. J. *Insurance law of New York, being chapter 28 of the consolidated laws and chapter 33 of 1909, including all amendments of 1920, with notes and annotations.* (New York: Banks Law Pub. Co. 1920. Pp. l, 516.)

Indiana workmen's compensation act and decisions of the Industrial Board, with references to negligence and compensation cases annotated. (Chicago: Callaghan. 1920. Pp. 1147-1218.)

New York state workmen's compensation law, with amendments, additions, and annotations to August 1, 1920. (Albany: Bureau of Statistics and Information. 1920. Pp. 114.)

Proceedings of the fiftieth session, National Convention of Insurance Commissioners. (Richmond, Va.: J. Button, Sec.-Treas. 1919. Pp. xi, 326.)

Proceedings of the fifty-fourth annual meeting of the National Board of Fire Underwriters. (New York: National Board of Fire Underwriters, 76 William St. 1920. Pp. 173.)

Workmen's compensation law of Maryland, revised, with amendments effective June 1, 1920; of New York, revised with amendments, May, 1920; of Virginia, revised with amendments, April, 1920, amendments effective July 1, 1920. (New York: F. R. Jones, 80 Maiden Lane. 1920. Pp. 48; 93; 36.)

Workmen's compensation supplement to department reports of Pennsylvania containing rulings and opinions . . . during the year 1919. (Harrisburg. 1920. Pp. 580.)

Pauperism, Charities, and Relief Measures

NEW BOOKS

Davis, K. B. *Study of women delinquents in New York state.* (New York: Century. 1920.)

Lloyd, C. M. *The present state of the poor law.* (London: Labour Party, 33 Eccleston Sq. 1920. Pp. 8. 2d.)

Canada's work for disabled soldiers. (Ottawa: Dept. of Soldiers' Civil Re-establishment. 1920. Pp. 149.)

Proceedings of the New York City conference of charities and correction, 1919. (New York. 1920. Pp. 220.)

Socialism and Co-operative Enterprises

National Guilds and the State. By S. G. Hobson. (New York: The Macmillan Company. 1920. Pp. 406.)

This study marks a distinct advance in our knowledge of guild proposals. Through sixteen chapters divided into two parts—

The Producer, Consumer, and the State; and The Transition— we have an illuminating analysis of the state over against those functional bodies which challenge every known conception of state sovereignty and boldly propose a partnership with a division of powers. The sprightly tilt of the author against Mr. Cole over the meaning of "the state" shows still more clearly what differences of opinion and interpretation are developing among guild advocates. It marks an epoch that guild theory at several points now passes into practice. Beyond Utopian expectations, the New Guild is now at grips with very sobering practical difficulties. In the half dozen volumes of Mr. Cole, we have the theoretic aspiration stated at its best, without a dull page, but with occasional acrid personalities (as against the Webbs) which one regrets. This writer easily leads in exposition of the new movement. As with Mr. Penty, there are no super-enthusiasms over medieval organization; not the artistic but the harder economic possibilities hold Mr. Cole's attention.

The author of the present study, Mr. S. G. Hobson, is severely concerned with economics and especially with the state in relation to guild development. Of a previous study by this writer the London *Nation* said: "His analysis of the wage system and its effect on national character is masterly and incisive." The *Manchester Guardian* which has given close attention to the movement calls it "quite the best brief exposition of this school of reform." Mr. Hobson's practical official relation to the Guild gives him added authority. As no writer, he shows how the purely industrial relations are one by one withdrawn from the state and distributed among the guilds. These are to be the main functional body with a subdued partnership on the part of the state. Throughout, the driving force is the trade union. No exposition has made it clearer than Mr. Hobson's that organized labor has the heavy task of giving practical effect to the guild idea. The chief work of the intellectuals is that of persuasion. They have also to convince governments and local authorities. Throughout, the practical obstacles have been the hesitations of government and local municipal authorities. Private contractors are held by specific guaranties and can be sued in the courts for non-fulfilment of contract. Can the guild, as now organized, be held to these responsibilities? With all the fine phrases about substituting the "motive of free service" for that of private profits, can the city count on ardors so refined? The Building Guild asks a commis-

sion of 10 per cent on cost of structures; what guaranty is there that they would not strike for higher wages and thus for a higher commission? Doubts such as these have long delayed many a plan in its paper stage. Now that a Yorkshire town (Halifax) has actually entered upon a tentative scheme "to see on a small scale if the Guild can make good," the period of mere theoretic criticism has perhaps passed. A compromise has also just been made between the Ministry of Health and the Manchester Guild. We read: "The compromise, by combining the principle of lump sum per house with that of a percentage on costs, secures both that it shall be to the interest of the guild to build as cheaply as it can and that a return sufficient to secure continuous employment to the guild operative, as against casual work, is assured." That the powerful financial organization, the Coöperative Wholesale, has backed the scheme by assuming insurance and furnishing building material gives confidence both to the public and to the guild.

An encouraging article in the most recent issue (at this writing) of the *Manchester Guardian* closes with the words: "Even those who were not at first favourable to the guild idea, and were profoundly sceptical as to its practicability, are said to be impressed by the fine spirit with which the men are entering into their work." The wide and keen interest excited by the guild idea is due largely to a growing conviction that "labor" will never again give the essential energy to production without such changes in the capitalistic sanctities as to convince the wage-earner that in some definite sense he is an acknowledged partner in the industrial process. Both sentimentally and practically the guild offers him this chance as it offers "social authorities" an opportunity without grave risk to meet the labor challenge.

John Graham Brooks.

The Limits of Socialism. By O. Fred Boucke. (New York: The Macmillan Company. 1920. Pp. 259. $1.50.)

The dual character of socialism, as a theory of social evolution and a social ideal, naturally suggests the double question as to the residue of truth in the theory after the destructive criticism of enemies and friends, and the extent to which the hopes of socialists might be realized if their program were put into operation under favorable circumstances. These are apparently the "limits" which the author has in mind, although there is a certain ambig-

uity in his use of the term, which is more strictly applicable to the practical than to the theoretical side of socialism. Another question at once arises as to whether Marxian economics is the indispensable basis of the socialist program and what prospect of realization is left after the theoretical scaffold has been knocked down. The author's statement that today American socialism is stronger theoretically and practically than ever, seems to be inconsistent with his enumeration of its theoretical and practical weaknesses, and to involve the assumption that faith rather than reason is the socialists' mainstay. Yet the faith of American intellectuals has been sorely tried, if not weakened, in recent years, although the movement which they started may go on, under more ruthless leaders, regardless of theoretical or practical difficulties.

In regard to theory, Professor Boucke finds that socialism erred in declaring conditions of production and exchange to be causative of all other facts of socialism; in attributing all values to one factor; in holding capitalism responsible for all social evils; and in prophesying increasing misery for the proletariat until the coming of the social revolution. Socialism was right, he says, in taking an empirical position; in ignoring transcendentalism; in pointing out the instability of society; in correlating science and reform, ethics and economics; in stressing the social roots of evil; and in preaching the gospel of prosperity as the basis of civilized life. Such, evidently, are the theoretical limits of socialism, although the author does not attempt to set forth the essential doctrines of socialism, nor to distinguish between socialists, mere social reformers, and sociologists who recognize the truth of much for which socialists have contended. In this connection the concept of limits has slight content, involving little more than the separation of the wheat from the chaff in socialistic theory.

In regard to the program of socialism, the author makes a worthy contribution to a much neglected subject in that he points out the difficulties which socialists will encounter in trying to realize their ideals, and the limited success which they are likely to attain. From a careful summary of gains and losses due to socialization of industry, he concludes that there would be in the United States a gain in labor power of about 5 per cent, or, under the most favorable circumstances, not over 15 per cent. The gains then, in production, distribution, and consumption would be far less than the proletariat have been led to expect. In the sphere of government, too, socialism has its limits, because of the

inevitable tendency of power in a democracy to fall into the hands of a minority; and when we contemplate internationalism we are forced to the conclusion that democracy must anticipate dark days, when group antagonisms reach their full fruition. Socialism offers no guarantee against war, unless there be a willingness on the part of the proletariat of every country to redistribute the world's goods, irrespective of national boundaries.

Notwithstanding such limits as these, which must bring grievous disappointment and disillusionment to the proletariat, Professor Boucke believes that socialism has contributed much to social reform, especially in calling attention to evils in the economic system and suggesting ways and means of social advancement. Social reform, he rightly says, must be based on social science, and "the data of biology and psychology, of sociology, and economics, furnish the light by which eventually a prescription may be filled for the curing of social patients." Thus the author reverts to the orthodox position that sound theory and practice are and must be one and inseparable; whence it follows that, if Marxism be abandoned, some better social theory must be found, else the world will flounder blindly on in the old genetic way. Indeed, as has been intimated, it will probably do some floundering in any case.

J. E. LeRossignol.

University of Nebraska.

NEW BOOKS

Birdseye, C. F. *American democracy versus Prussian Marxism; a study in the nature and results of purposive or beneficial government.* (New York: Revell. 1920. Pp. 371.)

Clark, E. *Facts and fabrications about soviet Russia.* (New York: Rand School of Social Science. 1920. Pp. 93. 50c.)

Dufour, M. *Le syndicalisme et la prochaine révolution.* (Paris Rivière. Pp. 437. 6 fr.)

Glasier, J. B. *The meaning of socialism.* (New York: T. Seltzer. Pp. 249.

Haldane, R. B. *The problem of nationalization;* with an introduction by H. J. Laski. Dunster House papers, no. 2. (Cambridge, Mass.: Dunster House Bookshop. Pp. 40. 75c.)

Hyndman, H. M. *Evolution of revolution.* (New York: Boni. 1920.)

Lee, F. E. *The Russian coöperative movement.* U. S. Dept. of Com-

merce, Miscellaneous series no. 101. (Washington: Supt. Docs. 1920. Pp. 83. 15c.)

Mautner, W. *Der Bolschewismus: Voraussetzungen, Geschichte, Theorie, zugleich eine Untersuchung seines Verhältnisses zum Marxismus.* (Berlin: Kohlhammer. 1920. Pp. xxiii, 368.)

Mehl, J. M. and Jesness, O. B. *The organization of coöperative grain elevator companies.* Bureau of Markets Dept. bulletin 860. (Washington: Supt. Docs. 1920. Pp. 40. 10c.)

Metton, C. *Un village syndical. Bibliothèque du syndicalisme agricole.* (Paris: Payot. 1920. Pp. 155.)

Money, L. C. *The triumph of nationalization.* (London: Cassell. 1920. Pp. 253. 7s. 6d.)

Oppenheimer, M. *Outlawing socialism.* (Chicago: Socialist Party of U. S. Pp. 44. 15c.)

Postgate, R. W. *The bolshevik theory.* (London: Grant Richards. 1920. 7s. 6d.)

Raven, C. E. *Christian socialism, 1848-1854.* (New York: Macmillan. 1920.)

Shaw, L. M. *Vanishing landmarks; the trend toward bolshevism.* New edition. (Chicago: Laird & Lee. 1920. Pp. 252. $1.50.)

Smith-Gordon, L. and O'Brien, C. *Coöperation in many lands.* Vol. I. (Manchester, England: Coöperative Union, Ltd. 1919. Pp. 272.)

Solomon, C. *The Albany "trial."* (New York: Rand School of Social Science. 1920. Pp. 71.)

Sorel, G. *Matériaux d'une théorie du prolétariat.* (Paris: Rivière. Pp. 424. 7 fr.)

Spargo, J. *The greatest failure in all history; a critical examination of the actual workings of bolshevism in Russia.* (New York: Harper. 1920. Pp. xvii, 486.)

Spence, Ogilvie, and Paine. *The pioneers of land reform.* With an introduction by M. Beer. (New York: Knopf. 1920. Pp. ix, 206. $1.50.)

Contains reprints of *The Real Rights of Man,* by Thomas Spence (1775); *The Right of Property in Land,* by William Ogilvie (1781); *Agrarian Justice,* by Thomas Paine (1795).

Taylor, R. *The socialist illusion.* (London: Allen & Unwin. 1920. 2s. 6d.)

Towler, W. G. and Ray, W. *Socialism: its promise and failure.* (London: Dept. of Social Econ., London Munic. Soc. 1920. 1s.)

Ulianov, V. I. (Nikolai Lenin, pseud.) *The Soviets at work; the international position of the Russian soviet republic and the funda-*

mental problems of the socialist revolution. Fifth edition. (New York: Rand School of Social Science. Pp. 48. 15c.)

Walling, W. E. *Sovietism; the A B C of Russian bolshevism—according to the Bolshevists.* (New York: Dutton. 1920. Pp. ix, 220. $2.)

Information respecting the Russian soviet system and its propaganda in North America. (Ottawa: Dept. of Labour. 1920. Pp. 18.)

Practical experience with profit sharing in industrial establishments. Research report no. 29. (Boston: National Industrial Conference Board. 1920. Pp. ix, 86.)

Proceedings of the fifty-first annual coöperative congress, 1919, of the Coöperative Union, Ltd. (Manchester, Eng.: Coöperative Union Ltd. 1920. Pp. 814.)

Report of the labour delegation to Russia, 1920. (London: Trades Union Congress and the Labour Party. 1920. 2s. 6d.)

Report on profit sharing and labour co-partnership in the United Kingdom. (London: Ministry of Labour, Intelligence and Statistics Dept. 1920. Pp. 544. 1920. 1s.)

Statistics and Its Methods

NEW BOOKS

Castelnuovo, G. *Calcolo delle probabilità.* (Milan: Soc. Ed. Dante Alighieri. 1919. Pp. xxiii, 373. 18 l.)

Duncan, C. S. *Commercial research. An outline of working principles.* (New York: Macmillan. 1919. Pp. 385. $2.25.)

There are chapters on the need and character of commercial research; and on the sources, character, methods of collecting, analysis, presentation, and interpretation of business facts.

Frederick, J. G. *Business research and statistics.* (New York: Appleton. 1920. Pp. x, 342.)

Key, W. M. E. *Heredity and social fitness; a study of differential rating in a Pennsylvania family.* (Washington: Carnegie Inst. 1920. Pp. 102.)

Yule, G. U. *An introduction to the theory of statistics.* (London: Griffin. 1919. Pp. 398.)

Annuaire international de statistique. IV, *Mouvement de la population (Amérique).* (La Haye: W. P. Van Stockum & Fils. 1920. Pp. xi, 120.)

Includes figures for South American nations where available. Tables relate to marriages, divorces, births, and deaths. Illustrated by maps and charts.

Annuaire international de statistique, VI. (La Haye: W. P. Van Stockum & Fils. 1920. Pp. viii, 154.)

Deals with wages, collective bargains, unemployment, employment agencies, trade unions and strikes. Summarizes data collected from all nations publishing material.

Annuaire statistique de la Belgique et du Congo Belge, quarante-cinquième année—1914. (Brussells: Ministère de l'Intérieur. 1920. Pp. 603. 10 frs.)

Birth statistics for registration area of United States, calendar year 1918. Fourth annual report. (Washington: Supt. Docs. 1920. Pp. 312. 40c.)

British oversea dominions from 1903 to 1917. Statistical abstract, 54th number. (London: H. M. Stationery Office. 1920. 3s. 6d.)

The Canada year book, 1919. (Ottawa: Bureau of Statistics. 1920. Pp xvi, 697.)

Central electric light and power stations with summary of electrical industries, 1917. (Washington: Supt. Docs. 1920. 75c.)

Cotton production in the United States, crop of 1919. (Washington: Supt. Docs. 1920. 10c.)

Financial statistics of states, 1919. (Washington: Supt. Docs. 1920. Pp. 119.)

Graphic and statistical sales helps; a comparative and statistical data for sales executives on manufacturing wholesaling, and retailing. (Chicago: A. W. Shaw. 1920. Pp. 179.)

Mortality statistics, 1918. (Washington: Supt. Docs. 1920. Pp. 603.)

Nomenclatures internationales destinées a rendre comparables entre elles les statistiques nosologiques. (Paris: Ministère des Affaires Etrangères. 1920. Pp. 52.)

Official year book of the Commonwealth of Australia, statistics for period 1901-1918. (Melbourne: Commonwealth Bureau of Census and Statistics. 1920. Pp. xxxviii, 1234.)

Report and resolutions adopted by the first conference of government officers engaged in dealing with statistics in the British Empire, held at the Board of Trade January 20-February 26, 1920. (London: H. M. Stationery Office. 1920. Pp. 68.)

Statistical abstract of the United States, 1919. (Washington: Supt. Docs. 1920. Pp. 864. 50c.)

Statistics of railways in the United States. Twenty-third annual report for the year ended December 31, 1917. (Washington: Supt. Docs. 1920. Pp. 530.)

Year book of the state of Indiana for the year 1919. (Fort Wayne, Ind.: Legislative Reference Bureau. 1920. Pp. 1190.)

Industries and Commerce

Farm Land Values in Iowa. In the last issue of this Review (p. 644) appeared a review of the results of an investigation of farm land values in Iowa, issued by the United States Department of Agriculture. At the time the Review went to press the bulletin had not yet appeared and therefore it was not practicable to give specific credit for the authorship of the publication. The results of the investigation have been published under the title of *Farm Land Values in Iowa,* by L. C. Gray and O. G. Lloyd, Bulletin No. 874, United States Department of Agriculture. The investigations were made in coöperation with the Iowa Agricultural College which was represented by O. G. Lloyd.

This bulletin is the first product of the Division of Land Economics, of the newly organized Office of Farm Management and Farm Economics. Dr. L. C. Gray is in charge of the division. The establishment of this field of work in the Department of Agriculture represents a recognition by the department of the fact that the nation has reached the close of an epoch in its policies with respect to agricultural land and that it is necessary to anticipate by systematic investigation the formulation of policies that will regulate in the interest of national welfare the tenure and use of land rather than merely provide for the alienation of the public domain.

Although the investigational work of the Division of Land Economics has been under way little more than a year, numerous investigations are being carried on concerning the following major topics: causes and significance of tenancy, the distribution of farm land ownership, methods of facilitating the ownership of land, land values and methods of valuation with special reference to measuring the influence of the factors determining rents and values, the tenant contract and methods of improving it in various systems of farming, organization of estate farming with special reference to the plantation system, conditions determining the use or non-use of agricultural land in various regions, and methods of land settlement and colonization public and private. This is a field of economic research in which additional well trained students are needed.

Attention of professors of economics is called to the fact that land economics is a field of research that is likely to offer opportunities of increasing importance in the next few years to young men and women who have had the suitable training and that not only the United

States Department of Agriculture but the colleges of agriculture and other public agencies, national and state, will provide attractive employment for men trained for work in this field. H. C. T.

The United States Tariff Commission has printed for the use of the House Committee on Ways and Means *A Survey of the British Wool-Manufacturing Industry* (Washington, 1920, pp. 106), the result of a field investigation in Great Britain made during the later months of 1919.

The United States Tariff Commission has recently published *Reciprocity with Canada, A Study of the Arrangement of 1911* (1920, pp. 114) and in its Tariff Information Series, No. 17, *Subject Index to Tariff Information Surveys and Reports* (pp. 25); No. 19, *The Crude Botanical Drug Industry* (pp. 69).

The Secretary of the United States Department of Agriculture has prepared a new edition of *Regulations of the United States Warehouse Act of August 11, 1916, as Amended July 24, 1919* with special regulations for wool warehouses (Washington pp. 31).

The Bureau of the Census has compiled a pamphlet on *Cotton Production in the United States, Crop of 1919* (pp. 39).

Two additional volumes of the Cost Reports of the Federal Trade Commission on *Coal* have appeared. No. 5 relates to *Ohio, Indiana, and Michigan—Bituminous*; and No. 6, to *Maryland, West Virginia, and Virginia—Bituminous* (Washington, 1920, pp. 258; 286).

The Federal Bureau of Foreign and Domestic Commerce has issued Special Agents Series, No. 98, *South African Markets for American Hardware*, by R. A. Lindquist and C. S. Williams (pp. 56).

The Department of Agriculture has recently issued as department bulletins *Requirements and Cost of Producing Market Milk in Northwestern Indiana* (No. 858, July 16, 1920, pp. 31); *The Organization of Coöperative Grain Elevator Companies* (No. 860, Aug. 20, 1920, pp. 40); and *Marketing Eastern Grapes* (No. 861, Sept. 13, 1920, pp. 61); also *Timber Depletion, Lumber Prices, Lumber Exports, and Concentration of Timber Ownership*, submitted in compliance with Senate resolution 311 (Washington, June 1, 1920, pp. 71), which is a nationwide survey of the present status of forest supplies, illustrated by maps and charts.

The hearings held before the Committee on Manufactures of the

United States Senate in regard to *Increased Price of Shoes* have been printed in four parts (Washington, pp. 118).

The United States Shipping Board has issued *The Shipping Act and Merchant Marine Act, 1920,* revised to June 1, 1920 (Washington, pp. 151).

The Merchant Marine Act, 1920 has also been separately printed by the American Exchange National Bank of New York (pp. 40) and by the Committee of American Shipbuilders, 30 Church St., New York City (pp. 35).

The Division of Foods and Markets of the New York State Department of Farms and Markets (Albany) is publishing a monthly bulletin entitled *Foods and Markets.* It has also printed an eight-page circular on *The Public Market,* in which the advantages and disadvantages of such a market are contrasted.

There has been received the *Fourth Annual Report of the State Market Director of California and Third Annual Report, State Fish Exchange* (Sacramento, 1920, pp. 129).

The Industrial Commission of North Dakota has issued a pamphlet on *The North Dakota Industrial Program,* which contains a report on the organization of the North Dakota state industries, and the administration of related laws covering the protection and promotion of agriculture and other industries (Bismarck, May 21, 1920, pp. 86).

The National Foreign Trade Council offers to students of foreign trade or economics copies of the *Proceedings of the National Foreign Trade Conventions* at special terms. Information in regard to this can be obtained from O. K. Davis, Secretary, National Foreign Trade Council, 1 Hanover Sq., New York City.

Corporations

Report of the Federal Electric Railways Commission. Although the technique of regulation and the application of principles of financial practice already known in the field of public utilities occupy the major part of the report (*Report of the Federal Electric Railways Commission to the President,* August, 1920, pp. 30), it also contains some features of general economic interest and two with reference to taxes which will be of special interest to the economist.

The Federal Electric Railways Commission had no statutory basis. It was appointed by the President about June 1, 1919, in accordance with the suggestion of the Secretary of Commerce and the Secretary

of Labor, who pointed out the financial crisis of the street railways produced by mounting costs and inflexible fares, and urged an investigation by a broadly representative body of eight made up of one representative of each of the following groups: Treasury Department or War Finance Corporation, Department of Commerce, Department of Labor, National Association of State Public Utility Commissioners, American Cities League of Mayors, Amalgamated Association of Street and Electric Railway Employees, American Electric Railway Association, Investment Bankers' Association of America.

After holding hearings covering more than 6,000 pages of transcript and obtaining a great mass of information by means of questionnaires, and causing a thorough analysis to be made of the evidence so obtained, the commission met and framed a report, which reflects, as the commission confesses, decided concessions by some of its eight individual members.

Summarizing the commission's conclusions relating to regulatory technique and principles of financial practice, which have a general economic bearing, the commission declared that municipal ownership and operation do not at this time promise relief from the financial or social problems of street railway management, this largely because the city governments are not responsible enough for such undertakings, but that eventually such changes might become possible, especially if the relations between the companies and the cities can be rationalized and simplified by the adoption of the principles recommended by the commission; that efficiency of the street railways requires credit; that their credit has been destroyed by early mismanagement, particularly excessive capitalization and neglect to provide against depreciation; by overbuilding, by payment of excessive rentals to affiliated lines, and responding to excessive exactions of holding companies; by oppressive franchise burdens with regard to street paving and the like; and finally by mounting costs and inflexible franchise fares. The commission recommended the adoption of the indeterminate contract with the flexible rate; that the initial rate be fixed after a valuation, in the determination of which the original cost shall be primarily considered and which valuation shall then determine the capitalization; that regulation should be comprehensive, covering rates, service, financial accounting, depreciation reserves, and security issues; that such regulation although instantly local should be, especially as to service and rates, subject to final jurisdiction of the state commission; that the "cost-of-service" contract of the general type now employed in Cleveland and Dallas in which the invested capital is assured a fixed

return through a fluctuating fare varying with the net revenue may well be considered by urban communities if it be accompanied by proper reservation in the public ot the right to become the owner of the property. The commission considered that the public gasoline conveyance should not be so restricted as artificially to deprive the public of a service which the street railway is unable to afford, but that it should be subject to taxation and regulation, in general equivalent to that imposed on the railway, and that it should be required to obtain a certificate of public convenience prior to being allowed to compete directly with it. As to labor, the commission recommended a recognition of the right of collective bargaining, but emphasized the responsibility of the labor organization to insure compliance with arbitration awards and to procure the efficient coöperation of every individual for whose wage it bargains.

With reference to taxation of street railway property thé commission in effect takes the position that the degree of taxation should vary inversely with the degree of regulation.

The argument on this point may be summarized as follows. The evidence shows that on the basis of the five-cent fare, the taxes represent about one half of a cent in the nickel paid by the car rider and thus contribute materially to the necessity for fare increases. It has been contended that the car rider should not be required to support the schools, almshouses, and other city institutions, but that the company should pay in taxes only such an amount as would reimburse the city for actual cost due to the presence of the street railway. Although there is much force in this idea, the time is not ripe for recommending its general adoption. The present heavy taxation came into being during a period of prosperity when the companies were essentially private concerns, relatively free from regulation, and therefore subject to taxation in no less degree than other private corporations. When a company comes to subject itself to such a comprehensive regulation as renders its property in effect a public instrumentality, tax exemption begins to be in order. This course has, indeed, been followed in Cleveland. To the extent that it may become possible in any community to exempt street railway property from taxation, the rider's carfare will come more nearly to represent the actual cost of rendering the service of transportation—in itself a desirable result. But the status of the company as a public agency should be well assured before such exemption should be attempted.

It is to be noted that the commission does not undertake to say how this tax, which is simply for the purpose of reimbursing the city for

its actual cost due to the presence of the street railway, is to be collected. Whether it be in the form of a tax on distributable net revenue or in the form of a property tax on a reduced basis, the consequent differentiation in the basis of profits or property taxation would naturally come to be applied to other public utilities under regulation—to gas works, telephones, electric light and power plants, and steam railroads; because in the social motive for reducing their cost to the minimum, and in the constitutional criteria for differentiation in their assessment, these agencies of public service are all assimilable. In other words, the Federal Electric Railways Commission has opened here for consideration a point which if it is to be dealt with at all, must lead us to contemplate an entirely new determination under modern conditions of the fiscal contributions of public utilities—a determination based upon the degree of their socialization. And such a new determination in turn necessarily suggests that to private property and activities unaffected with a public interest would increasingly be shifted the burden of supporting the machinery of our expanding governments. Here are implications penetrating deep into the old economic interrelations on which the typical state fiscal system in the United States has in the past been based.

Somewhat novel, but calling for changes far less fundamental, is the commission's suggestion that the property owners whose real estate receives new value through the construction of a street railway extension, particularly of a subway or rapid transit extension, should, in whole or in part, pay for such construction out of such resulting benefits. The commission, giving concrete examples of the enhancement of land values in New York through extensions of its subway system, and referring to testimony as to similar enhancements in Philadelphia, urges that the procedure generally employed in the United States for paying for the construction of streets and other public improvements out of assessments for benefits, be adapted to financing such street railway extensions. The suggestion is that the construction be paid for in the first instance by the city, at which time the property in the benefited district would be affected by a lien of limited but undetermined amount; that appraisal of benefits be made perhaps five years after construction; that owners be given the right to pay their assessments in instalments over a course of years; and that the amount finally payable to the city by the company as rental for use of such improvement depend upon the extent to which the total aggregate assessments might cover its cost, the rental being nominal if that aggregate should equal the cost. It is presupposed

that there exists such public control of accounting methods as would cause the resultant saving to the company to be exactly represented in its rate of fare.

By this method of financing the construction of extensions, says the commission, the public can avoid the dilemma presented by the fact that the higher fares necessary to fund a costly extension intensify the very congestion which such improvement is intended to relieve. It is urged that where such method appears practicable, it should be established whether by ordinance, by statute, or by amendment to state constitution.

The success of such a plan of financing an extension would depend largely upon the degree of special benefit reasonably certain to arise therefrom, so that in many situations the idea would not be practicably applicable. In addition to its most obvious advantages, it would tend to prevent improvident overextension through undue influence of land speculators, a typical evil of the past, now somewhat controlled by regulation. If wisely applied, it need not operate to deprive a city of such extensions as would be reasonably necessary. As pointed out by the commission, the problems incident to a city's owning way-bearing structures and leasing them to the company have in the past been successfully handled in Boston and elsewhere.

Both of these suggestions of the Federal Electric Railways Commission in the general field of taxation ought to provoke fresh thinking and will, it is hoped, be at least helpful in the search for new bases of adjustment.

Louis B. Wehle.

Control of Public Utility Rates in the State of New York. One of the most important problems throughout the country has been the proper adjustment of street railway fares and other public utility rates to the increase in operating costs since 1914. The general difficulty has been the lack of effective machinery by which rates are fixed. In most instances the crucial point has been the investment entitled to a return; the amount has not been determined and there have been wide differences of opinion as to how the valuation should be made. Other perplexities have been the past excessive returns and how they should be used in the face of present deficiencies; franchise restrictions upon rates in relation to important privileges granted to the companies by the same franchises; interpretation of statutory law in relation to rates, and the powers of the public utility commissions.

In the state of New York all these difficulties have prevailed, and the legal situation has become more confusing by recent decisions of

the Court of Appeals, the highest court in the state. The purpose of this note is to give a summary account of the legal situation in the state of New York in relation to public utility rates, especially the difficulties in regard to street railway fares.

The public service commissions law was enacted in 1907, creating the Public Service Commission and, in general, delegating to it the power to fix reasonable rates. At that time the problem was one involving a reduction in rates and not an increase, and the commission received ample power to order any reasonable reduction subject to review by the courts. As to an increase in rates, however, the law was not clear. With gas and electricity the commission was definitely restricted to the maximum fixed by the statute, while with street railways it seemed to have authority to increase as well as to reduce fares.

The first important decision involving the power of the commission to increase street railway rates, was the so-called Quimby case, decided by the Court of Appeals in 1917 (223 N. Y. 244). The issue there was whether the commission had power to raise rates above 5 cents on the street railways of the city of Rochester, and the decision was that the commission did not have power. The court held that the commission has full power to deal with rates fixed by statute, but not to increase rates beyond the maximum fixed by franchises granted by local authorities. The power to set aside the maximum rates fixed by franchise must be definitely delegated and cannot be inferred, and no such power was conferred upon the commission.

There was the question, however, whether the legislature itself has the right to raise street railway rates above the maximum fixed by franchise, because since 1875 the conditions placed in the franchises granted by the municipalities rested upon constitutional rights and not upon legislative authorization. The court stated specifically that this question was not involved in the case and would not be decided until it was a direct issue. The decision was commonly understood to mean that whenever there were franchise requirements as to fares or rates, whether they were imposed under statutory authority or under the constitutional provision of 1875, the duties imposed upon the companies could not be diminished by the commission, and that this view applied to gas and electric companies as well as to street railways.

A year later, however, in the Glens Falls case (225 N. Y. 216) the court decided that the commission had authority to raise gas rates above the maximum fixed by franchise. The distinction between this case and Quimby was not specifically set forth, and even now after the

recent more clarifying decisions the fundamental basis of the Glens Falls decision is not clear.

In August, 1919, in the Buffalo case (226 N. Y. 474) it was decided that the commission had the right to raise street railway fares above those fixed by franchise, but here the agreement between the city and the company specifically provided that the rates should be subject to legislative control. This decision, therefore, rests on the particular circumstances where the legislative control was reserved and was then delegated by the legislature to the commission. It did not seriously limit Quimby and was clearly distinguished.

Finally on July 7, 1920, the Court of Appeals rendered three decisions which clarified the law but which probably added greatly to the confusion and to the litigation before reasonable street railway adjustments can be made.

First: In the Niagara Falls case, the commission was denied the power to increase street railway rates above the maximum fixed by the franchise in 1905.

Second: In the Manhattan and Queens Traction Company case the commission was given power to increase rates above the franchise maximum fixed in 1912 after the public service commissions law was enacted, when, therefore, the power of the commission over rates became a necessary part of the franchise agreement.

Third: In the Brooklyn Rapid Transit cases the commission was denied the power to raise the general rates of the company, without prejudice however to the company's making separate applications for higher rates as to franchise granted (1) directly by the legislature, (2) by municipalities prior to 1875, (3) by municipalities since 1907 after the enactment of the public service commissions law, and (4) certain specified franchises granted between 1875 and 1907 where there were no franchise restrictions as to rates.

Now, what is the law? As to street railways it is clear that the commission has no power to increase fares above the maximum fixed by franchises granted between 1873 and 1907. Likewise it is clear that as to franchises granted under the present provisions of the public service commissions law, the commission has jurisdiction, except possibly where the grants are by their terms clearly dependent upon prior rate restrictions. As to franchises before 1875 the companies may apply for increases in fares, but it is not clear that the jurisdiction of the commission has been definitely established. Moreover, in such prior grants subsequent franchises may have superseded the rate provisions fixed before 1875.

The recent decisions have opened the floodgates to litigation. In New York City, for example, no company operating surface lines can put into effect a general increase in fare because it has several franchises with fare restrictions. There are, indeed, very few lines or routes as now operated which do not somewhere in their course come under franchise restrictions as to fares. It is possible that on an occasional line a flat increase may be allowed, or that here and there a line may be divided into two or more zones each with a separate 5 cent fare, or some of the zones with more than 5 cents. But if increases of that character are finally allowed, the general system of rates will be greatly distorted, grave inconsistencies will be established, serious discrimination as between different localities of the city will be created, service will deteriorate, and traffic will undoubtedly be driven to a large extent from the surface lines to the subway and elevated. The companies instead of getting financial relief by such patchwork of rate adjustments will probably get into more serious difficulties.

The rapid transit contracts of the City of New York with the operating companies present further complications. They were executed in 1913 after the public service commissions law was enacted and might therefore be considered a coming under the commission's power over fares. The contracts provide for a 5 cent fare in return for specified considerations and privileges granted to the companies. If the commission's power over fares should be sustained, the fares would probably be increased while all the privileges granted to the companies would be continued, however unreasonable some of the provisions may be. The proposition seems completely beyond reason to destroy the single advantage reserved for the public by the rapid transit contracts, and to perpetuate the extraordinary privileges granted to the companies.

The Rapid Transit contracts may, however, be clearly distinguished from ordinary franchises granted since the enactment of the public service commissions law, and the jurisdiction of the commission can, and doubtless will be, disputed.

First: Under their terms, the contracts are connected with earlier grants which contained 5 cent fare restrictions.

Second: They are not franchises of the ordinary sort; they represent investment by the city and constitute a partnership agreement with the companies.

Third: They may be taken altogether out of the category of franchises, especially so far as the subways and the city-owned lines are

concerned; the grant for the use of the streets is to the city itself. The contracts merely provide for construction, provision of equipment, lease and operation of the road.

In face of this confusion, especially in New York City, the way out in every instance is for the companies to negotiate new agreements or settlements with the municipality. Such new agreements have been made in a number of cities, and in practically every case represent great improvement over earlier conditions. In New York City, unfortunately, the companies have taken no serious step toward seeking a new agreement; they have carried on a tremendous propaganda for higher fares; have sought judicial interpretation for relief from contract requirements, and have tried to get special legislation for higher fares without affecting their franchise privileges.

The plain fact is, as to New York City at least, that the existing franchises and contracts give to the companies privileges that should never have been authorized and that continue a constant menace to the public. If an increase in rates were authorized either through judicial decisions or by legislation, the single advantage reserved for the public by the agreements would be annulled while the privileges to the companies would be continued. In New York City, at least, there would be perpetuated an immense sum of over-capitalization, unjustified rentals, and excessive fixed charges. The sensible way out of the present condition is through negotiation of new agreements replacing all existing franchises and contracts. Until a new agreement is reached, especially in New York City, the companies can get no substantial relief through the minor rate adjustments that may be possible under the recent decisions.

Referring in conclusion to gas and electric rates, apparently, as previously stated, the commission has full power over rates, notwithstanding any franchise restriction. The basis of this distinction is not clear, except that franchise restrictions rest upon statutory and not constitutional rights of the cities. As to statutory provisions, the commission has power to reduce rates below the maximum fixed by statute, but not to increase them beyond such maximum. But there is here the peculiar situation, after a statutory maximum has been declared unconstitutional by the court—because it does not furnish a proper return to the company, there is doubt as to the commission's jurisdiction to fix the rate above the statutory provision. In other words, the statutory rate in such a case apparently does not exist as against the company, but still operates in restraint of the commission. If there had never been a statutory rate, the commission would

have authority to increase as well as reduce rates according to conditions of the business.

There is clearly imperative need to study and revise the public service commissions law and to reconstruct the machinery for regulation. At the same time, however, the power of the municipalities must not be destroyed or seriously limited to negotiate new franchises or agreements with the companies.

John Bauer.

The Library Bureau of Railway Economics has prepared a typewritten bibliography on *Increased Use of the Freight Car* under date of September 2. 1920 (Washington, pp. 24).

The National Automobile Chamber of Commerce (Grand Central Palace, Lexington Ave. and 46th St., New York) has for distribution circulars and pamphlets in regard to the increased use of the automobile in local transportation.

The Research and Statistical Department of the First National Bank in St. Louis has prepared a typewritten circular on *Public Utility Prices and Rate of Return.*

The Guaranty Trust Company of New York has made a reprint of the *Transportation Act, 1920* (New York, pp. 20).

The Review has received the *Brief and Argument on Behalf of the Public Utilities Commission of Illinois* before the Interstate Commerce Commission in the matter of final value, general principles, and elements to be considered in valuation of railroad property (Edward J. Brundage, Attorney General, Springfield, Ill., pp. 65).

In *New Legislation of Especial Interest to Public Utilities* (Boston, Dept. Public Utilities, pp. 48) are compiled the laws passed by the legislature of Massachusetts in 1920.

Labor

Steel Strike Report. An important document and, because of its source, a unique one, has just been published concerning the steel strike of 1919. It is entitled *The Interchurch World Movement Report on the Steel Strike of 1919* (New York: Harcourt, Brace and Howe. 1920. Pp. 277). The data for the report were obtained by and for the Commission of Inquiry consisting of Bishop F. J. McConnell, G. W. Coleman, Alva W. Taylor, Mrs. Fred Bennett, D. A. Poling, Nicholas Van Der Pyl, John McDowell, and Heber Blankenhorn. Bishop W. M. Bell and Bishop C. D. Williams acted in an advisory

capacity and, although they did not take part in the active field investigation, signed the report after full examination of it and the evidence on which it was based. The number on the committee and the fact that all signed the report ought to give it some validity.

Concerning the investigation, it is said that those parts of the evidence obtained directly by the commission were secured through personal observation and through open hearings held in Pittsburgh in November, supplemented by inspection trips in western Pennsylvania, Ohio, Indiana, and Illinois. More technical and detailed data were obtained by a staff of investigators working under a field director from the Bureau of Industrial Research, New York. Other evidence was obtained directly by the Bureau of Industrial Research, by the Bureau of Applied Economics in Washington, by a firm of consulting engineers, and by various other organizations and technical experts working under the direction of the commission. The results are presented in a main report with subsidiary supporting reports. Pertinent phases of other investigations and surveys, including governmental studies, the recent findings of the Senate Committee on Labor, evidence on the limitation or abrogation of civil rights, before and during the strike, have been collected and analyzed. The relation of "welfare work" to the workers was determined, chiefly by the analysis of available statistics. A detailed analysis was made of the relation of the press and of the pulpit to the strike, fields hitherto neglected; and a similar analytical study was made of companies' "undercover men" and "labor detective agencies." A body of over five hundred affidavits and statements from striking and non-striking steel workers was collected and analyzed.

The efforts to get at the real facts of the situation were hampered in many ways and the report frankly says:

> Difficulties in obtaining evidence were expected;—they exceeded expectations. In certain quarters the Commission of clergymen were charged with being "Bolshevists" and "anarchists"; their investigators were rebuffed as "Reds"; one was "arrested." Formal action was finally necessary to combat the circulation in written form of charges whose only basis, apparently, was that any persons had ventured to make any investigation. In other quarters great courtesy was accorded, coupled with inability to furnish the desired statistics. Moreover the lack of up-to-date and available statistics which should have been possessed by union officials, the over-supply of unverified complaints from strikers and the reluctance to impart any information on the part of the companies combined to lengthen unduly the period of field investigation. The Commission's effort was in itself a revelation of the lack of authoritative means for acquainting the public with industrial information at a time of industrial crisis.

The scope of the inquiry is brought out in the following questions: (a) What workers constituted the bulk of the strikers? The answer

is that the mass of common labor and the semi-skilled comprising about three quarters of all employees, and mostly foreigners, constituted the backbone of the strike. (b) What was the chief factor on the employers' side? The answer, says the report, is not in dispute. The United States Steel Corporation was the admittedly decisive influence. Whatever the Steel Corporation does, the rest of the industry will ultimately do; whatever modifications of policy fail to take place in the industry, fail because of the opposition of the Steel Corporation.

The committee says that in its opinion the strike was justified by fundamental grievances, which are stated to be excessive hours, the boss system, and no right to organize or to representation. These grievances are declared to have been real because:

a. The average week of 68.7 hours, the twelve-hour day, whether on a straight twelve-hour shift or on a broken division of 11-13 or 10-14 hours, the unbroken 24-hour work period at the turn of a shift and the underpayment of unskilled labor, are all inhuman.

b. It is entirely practicable to put all processes requiring continuous operation on a straight eight-hour basis as is illustrated by the Colorado Fuel and Iron Company. These processes require the services of only a fraction of the workers.

c. The "boss system" is bad, the plant organization is military and the control autocratic. The companies' claims, that they accord the right to join unions and the opportunity of conference, are theoretical; neither is allowed in practice.

d. The use of "under-cover" men is severely condemned. It breeds distrust, breaks down morals and stimulates ill-will; it is undemocratic and un-American.

e. The refusal of the United States Steel Corporation to confer, to accept mediation, and its attitude of hauteur as shown by its refusal to follow the recommendations of the War Labor Board incited labor strife and, because of the strength and influence of this corporation, forms one of the greatest obstacles to a just settlement of industrial grievances and unrest at this time.

The workers' grievances were of long standing but had found no expression for four reasons: (1) They were limited largely to foreigners of many races and languages without industrial tradition, education, or leadership to organize. (2) Race prejudice effectually kept the more skilled, more intelligent and better paid American workmen from taking up the cause of the foreign-speaking workmen. (3) Labor unions have been accustomed to look upon the foreigner as

an actual or potential strike breaker. (4) The steel companies have most effectually deterred men from joining labor organizations.

These long-standing grievances, says the committee, were brought to expression by: (a) the part these workingmen played in the war and the treatment afforded them for the sake of war production which gave them a new sense of worth and independence; (b) the fight for democracy and news of a larger workingmen's freedom in their native lands together with a growing sense of real Americanism, which brought a spirit of democracy to their ranks; (c) the decision of the American Federation of Labor to organize them and its actual work of organizing them into craft unions.

The remedies sought are declared to be a shorter day and week with a living wage; representation and conference and an end to the "boss system" which so often subjects common labor to petty tyrannies; and a right to unionize and the substitution of industrial democracy for industrial autocracy.

Concerning the conduct of the strike and the charge of radicalism the report says that the strike was regularly conducted in orthodox fashion according to A. F. of L. rules and principles and, while radicals sympathized with the strikers as was natural, they were effectually debarred by the strike leaders. Far from having influence in it, they often denounced and opposed those who conducted the strike.

The causes of the defeat of the strike are summarized as: First, the strike-breaking methods of the steel companies and their effective mobilization of public opinion against the strikers through the charges of radicalism, bolshevism, and the closed shop, none of these charges being justified by facts. Second, the hostility of the press giving biased and colored news and the silence of both press and pulpit on the actual question of justice involved; which attitudes of press and pulpit helped to break the strikers' morale. Third, the suppression of civil rights.

The committee closes its report with positive recommendations. Among the most important are: (a) the adoption of the eight-hour shift on all continuous processes; (b) limiting of the day to not more than ten hours on duty, with not more than a six-day and fifty-four hour week, with at least a minimum comfort wage; (c) recognition of right to join regular craft unions or any other freely chosen form of labor organization; recognition of right to open conference, either through shop committees or union representatives; recognition of right of collective bargaining; (d) a vast extension of house building—by the communities where possible; by the steel companies where com-

munity building is inadequate or impossible; (e) that organized labor should democratize and control the unions, should repudiate restriction of production as a doctrine, should formulate contracts which can be lived up to, should find a substitute for the closed shop wherever it is a union practice, and should scrupulously avoid all advocates of violence.

According to the evidence, the denial of civic rights such as the right of free speech and the peaceful assemblage seems to have been flagrant. Self-constituted committees of business men without a shadow of legal right ran organizers out of town and broke up meetings. In this connection it may be said that western Pennsylvania, the storm center of the strike, seems to breed a type which may be described as religious, narrow, stubborn, and very shrewd. The religion is one of orthodox belief and little social vision. The Lord prospers the righteous believer and so piety and privilege go together.

The committee shows clearly that one of the main difficulties met in the investigation was an avoidance of the issue on the part of the employers and that instead of facts the argument used was that the committee and the leaders of the strike were socialists and dangerous radicals. These tactics are now being used in regard to the report. A writer in *Industry* declares:

> We do not believe that those directly in charge of the Commission on Industrial Relations acted fairly or in a broad impersonal manner when they employed as investigators of the steel strike men and women, the majority of whom are avowed socialists, instead of enlisting the aid of representatives of employers, employees, and the general public. The steel industry is highly technical and a great majority of its details are clear only to experts. The questions of hours and wages must be viewed from many angles and the intricacies of the industry are as numerous at least as the ramifications of theology. . . . Without question the recently issued report on the steel strike reveals an astonishing and disconcerting animus against an American industrial corporation well calculated to appal all who believe in fair play, especially where the church is concerned.

The report, however, must stand on its own feet in spite of the above. The attitude that "Gary's in his office, all's right with the world" is like that of the ostrich who sticks his head in the ground and thinks he is not seen. No real answer has yet been given to the main questions at issue, such as hours of labor, the denial of right to organize, the denial of civic rights, and wages. A fair answer to the question of wages might involve the real relation between wages and an ideal standard of living and thus give a basis for difference of opinion. It is incumbent upon the Steel Corporation to make an effective answer to the charges or else set its industrial house in order.

The report is a challenging document and raises fundamental questions concerning industrial relationships which need to be raised.

GEORGE MILTON JANES.

The Bureau of Labor Statistics of the United States Department of Labor has recently issued the following bulletins:

No. 265, *Industrial Survey in Selected Industries in the United States, 1919,* a preliminary report prepared under the supervision of Allan H. Willett (Washington, May, 1920, pp. 509). This contains a report on wages and hours of labor in twenty-eight industries.

No. 268, *Historical Survey of International Action Affecting Labor* (Aug., 1920, pp. 294). This traces the labor movement during the latter half of the last century with a summary of the proceedings of the international socialist and labor congresses. Chapter VII deals with protective labor treaties made by different countries.

No. 273, *Proceedings of the Sixth Annual Meeting of the International Association of Industrial Accident Boards and Commissions held at Toronto, September 23-26, 1919* (Aug., 1920, pp. 424).

The Women's Bureau of the United States Department of Labor has issued Bulletin No. 9, *Home Work in Bridgeport, Connecticut* (Washington, pp. 35); *Hours and Conditions of Work for Women in Industry in Virginia,* second edition (pp. 32).

The United States Railroad Labor Board, Chicago, Illinois, has published in its Wage Series Report No. 1, *Average Daily and Monthly Wage Rates of Railroad Employees on Class 1 Carriers.* This board has in process of development a comprehensive classification of railroad positions in the United States together with the preparation of forms upon which the roads will be asked to report their wage and other data to the board. This special work is under the direction of Professor Horace Secrist who is supervising statistician for the board.

The Division of Minimum Wage of the Massachusetts Department of Labor and Industries has printed its *Statement and Decree concerning the Wages of Women in the Women's Clothing Occupation in Massachusetts* (pp. 5) and concerning *Women Employed in the Paper Box Occupation* (pp. 6).

The *Nineteenth Annual Directory of Labor Organizations in Massachusetts* has been published by the Massachusetts Department of Labor and Industries (Boston, May, 1920, pp. 68).

The New York State Department of Labor has compiled in its bulletin for June, 1920, *New York Labor Laws Enacted in 1920* (Albany, pp. 93) and in its bulletin for July, *Court Decisions on Workmen's Compensation Law, July, 1919-June, 1920* (pp. 118). The department has also published a special study of *The Telephone Industry* covering investigations in regard to systems of employment and training, labor organization, working conditions, and various features of welfare work for employees.

The Industrial Commission of Wisconsin has recently published the *Eighth Annual Report of the Citizens' Committee on Unemployment and the Public Employment Bureau of Milwaukee* covering the year July, 1919, to June 30, 1920 (Madison, pp. 15).

The *Legislative Bulletin of the Consumers' League of Massachusetts* for March, 1920, contains data with regard to working children, more particularly their physical condition.

The Industrial Commission of Wisconsin has compiled in a pamphlet the statutory provisions relating to the *Minimum Wage* (pp. 23).

Dr. Royal Meeker, formerly commissioner of the Bureau of Labor Statistics at Washington, has been appointed chief of the Scientific Division of the International Labour Office of the League of Nations established in Geneva, Switzerland. This office will issue a *Bulletin* containing the official acts of the International Labour Organization and the International Labour Office; a legislative series which will contain translations of laws affecting labor enacted in the different countries of the world; bibliographies of publications relating to labor and industry; pamphlets (*Etudes et Documents*) containing short reports and articles on subjects of immediate importance in the field of labor and industry; a *Monthly International Labour Review*; and also special studies and reports.

The first number of the *Bulletin* appeared on September 8 and contains an account of the organization of the International Labour Office, which is under the direction of Mr. Albert Thomas.

Among the reports thus far received are to be noticed: Report I, *The Eight-Hours Day or Forty-Eight Hours Week* (pp. 56); II, *Unemployment* (pp. 150); III, *The Employment of Women and Children and the Berne Conventions of 1906.* These three reports were

prepared for the International Labour Conference held in Washington in 1919. Also four reports prepared for the Seamen's Conference held at Genoa, June, 1920, relating to *Hours of Labour*; *Unemployment*; *Employment of Children at Sea*; and *Seamen's Code.*

All of the foregoing may be obtained from Harrison and Sons, St. Martin's Lane, London W. C. 2.

The REVIEW has received from the Bureau of Applied Economics, 921 Fifteenth St., N. W., Washington, D. C., a set of exhibits (or pamphlets) presented by W. Jett Lauck before the United States Anthracite Coal Commission, on behalf of the United Mine Workers of America. These deal with: *Occupation Hazard of Anthracite Miners* (pp. 24); *Irregularity of Employment in the Anthracite Industry* (pp. 37); *Comparison of Earnings and Wage Rates in the Anthracite and Bituminous Mines of Pennsylvania* (pp. 20); *The Sanction for the Eight-Hour Day* (pp. 87); *The Trade Union as the Basis for Collective Bargaining* (pp. 171); *The Relations between Wages and Production, Costs, Prices, and Profits in the Anthracite Mining Industry* (pp. 45); *The Sanction for a Living Wage* (pp. 61); *What a Living Wage Should Be* (pp. 7); *Wholesale and Retail Prices of Anthracite Coal* (pp. 6); *Profits of Anthracite Operators* (pp. 13); *The Relationship between Rates of Pay and Earnings and the Cost of Living in the Anthracite Industry of Pennsylvania* (pp. 19); *Combination in the Anthracite Industry* (pp. 151); *Freight Rates on Anthracite Coal, 1914-1920* (pp. 12); *Operating and Financial Performance of Anthracite Railroads* (pp. 29); *Summary, Analysis and Statement* (pp. 44).

The National Association of Manufacturers (30 Church St., New York) has recently published a set of ten pamphlets entitled *Tracts for the Times,* dealing with labor problems, management, socialism, the British industrial crisis, extravagance, wages and prices, prepared by Professor J. Laurence Laughlin.

Further reports dealing with labor questions are:

Twenty-eighth Annual Report of the Maryland State Board of Labor and Statistics, 1919 (Baltimore, pp. 352).

Sixth Annual Report of the Industrial Accident Board of Massachusetts (Boston, pp. 119).

Fourth Annual Report of the Industrial Accident Board, 1919 (Helena, pp. 438).

Money, Prices, Credit, and Banking

There has been recently printed for the League of Nations reports dealing with the following subjects: Paper No. III, *Currency Statistics* (pp. 47); Paper No. IV, *Public Finance* (pp. 97); No. V, *International Trade* (pp. 68); No. X, *Relief Credits and the Promotion of Export*, No. XI, *Exchange Control* (pp. 171); No. XII, *Solutions Proposed: A Summary of Schemes for Remedying Present Financial Difficulties* (pp. 86); No. XIII, *Memorandum on the World's Monetary Problems* (pp. 45), by Gustav Cassel; *Memorandum on Credit, Currency and Exchange Fluctuations* (pp. 15), by Professor A. C. Pigou; and *Notes on the Financial and Monetary Situation* (pp. 7), by Professor Charles Gide; Paper No. XIV, *Price of Silver*, by G. Findlay Shirras. All of these can be obtained from Harrison & Sons, St. Martin's Lane, London W. C. 2.

The Director General of the Bank of North Dakota, which is owned and operated by the state, has prepared a pamphlet containing the laws and regulations governing the bank and outlining its policy. It also contains a statement of the reasons that lead to the creation of the bank. Monthly bulletins are issued and may be obtained upon application (Bismarck, N. Dak.).

The following reports dealing with banking have been received:

Annual Report of the Superintendent of Banks of the State of Alabama for the year 1919 (Montgomery, pp. 137).

Twelfth Biennial Report of the State Bank Commissioner of Missouri, 1919 (Jefferson City, pp. 499).

Annual Report of the Commissioner of Banking and Insurance of New Jersey (Trenton, pp. 41).

Annual Report of the Commissioner of Banking and Insurance Relative to Building and Loan Associations of New Jersey (Trenton, 1920, pp. 141).

Report of Banks of Deposit and Discount and Private Bankers in the State of New York (Albany, pp. 493).

Thirteenth Annual Report of the Bank Commissioner of Rhode Island, 1920 (Providence, pp. 228).

Thirteenth Annual Report of the Bank Commissioner of Washington, 1919 (Olympia, pp. 48).

Public Finance

CONFERENCE ON INCOME TAX FORMS AND SCHEDULES. A conference on income tax forms was called at Washington on September 15,

for the purpose of permitting the officials of the Internal Revenue Bureau to receive suggestions and recommendations as to proposed changes in the forms for the calendar year 1920. About twenty-five representatives of different associations and trade bodies were present at the conference, coming upon the invitation which the Commissioner of Internal Revenue sent to business, trade, and tax associations to have representatives meet with the tax officials and offer their suggestions, and in this way assist in preparing forms that would meet with general approval. However, it appeared to be the unanimous opinion of the representatives that no radical changes should be made in the schedules and that after minor adjustments were agreed upon the bureau should not disturb or eliminate the basis of comparison of the 1920 tax schedules with the returns covering the previous year. Dr. A. M. Sakolski, who was at the conference as the representative of the American Economic Association, was called on by the chairman to suggest changes in the schedules that might be desirable from an economic and statistical standpoint. It was argued that based on practical accounting experience, any change in the schedules involving or leading to an alteration of prevailing bookkeeping methods would cause a heavy increase of expense by individuals and corporations in making up their returns. As a whole, the schedules were based on correct accounting principles. However, the Internal Revenue Bureau seems to have had under consideration alterations of the schedules with a view to making possible the compilation of statistics having a social or economic significance. It was generally agreed at the conference that such statistics, whatever their value, would not compensate for the expense and trouble resulting from changes in bookkeeping methods.

At the suggestion of the representative of the National Lumber Manufacturers Association, the delegates at the conference met as a body and formulated a method of procedure in taking up matters of detail with the officials of the Internal Revenue Bureau. At this meeting, because it was generally assumed that no radical changes would be made in the income tax schedules, several representatives expressed the belief that no further sessions with the officials were necessary. Moreover, the representatives of the various retail dealers associations withdrew from the conference stating that they wished to present their recommendations directly to the Collector of the Internal Revenue. It was finally decided, however, to have two committees appointed among the representatives present, one on "accounting features" of the forms and the other on the "mechanics" of the forms.

At the afternoon meeting of the conference, the various heads of the Revenue Bureau's sections expressed themselves as also in favor of making no radical changes in the schedules. They, however, desired that arguments be presented covering proposed or suggested changes in any individual item in the forms.

A representative of the Investment Bankers Association of America presented arguments for the simplification of the forms with reference to the statement of income from Liberty Bonds and also with reference to matters of peculiar interest to investors. Further arguments for minor simplification of the corporate and individual income tax forms were proposed, but most of these arguments were met with the statement from the Revenue Bureau officials that the individual items in the schedules were inserted and arranged to conform with the Revenue Law and therefore could not be changed. In reference to the individual income tax return, it was suggested that an additional item be inserted covering the 8 per cent tax paid at the source for the account of income of non-resident aliens. The omission of this item in the 1919 forms was an oversight and accordingly it would be inserted in the 1920 schedules.

In the discussion regarding the general form and make-up of the schedules, it was suggested that it would be more convenient to the taxpayer to have each schedule made up in book form with the instructions facing the page containing the sub-accounts (*i.e.*, "blocks"). The tax officials, however, stated that the size, shape, and general make-up of the schedules were adopted for convenience in filing and auditing and could not very well be changed.

The conference adjourned without any definite plan for future deliberations covering the topics discussed. And, although the chairman stated that all who were interested could remain over and make individual suggestions, most of the representatives decided that this would not be necessary, particularly as recommendations could be made by mail up to October 1, 1920. A. M. Sakolski.

The following reports relating to taxation have been received:

Nineteenth Annual Conference of the State Board of Tax Commissioners and County Assessors of Indiana, 1920 (Indianapolis, pp. 165).

Proceedings of the Seventh Biennial Conference Convention of the Tax Commission and the County Assessors of the State of Kansas, held at Topeka, February 5-6, 1920 (Topeka, pp. 52).

Report of the State Tax Commission of the State of Mississippi for 1919 (Jackson, pp. 52).

Report of the Special Joint Commission on Taxation and Retrenchment Made to the Legislature of New York (Legis. Doc. No. 80, Albany, 1920, pp. 155). This deals particularly with retrenchment of expenditures in cities and counties.

Annual Report of H. J. Fullbright, State Tax Commissioner of Georgia 1919 (Atlanta, pp. 25).

The French Commission in the United States (65 Broadway, New York), in Supplement Nos. 5 and 6 to the *Fortnightly Survey of French Economic Conditions*, gives an analysis of the new French tax law.

Insurance

Bulletin No. 275 of the Bureau of Labor Statistics of the United States Department of Labor presents a *Comparison of Workmen's Compensation Laws of the United States and Canada up to January 1, 1920*, prepared by Carl Hookstadt (Washington, Sept., 1920, pp. 140).

In the *Proceedings of the Casualty, Actuarial, and Statistical Society of America* (59 John St., New York) for May 28, 1920, is a list of recent literature on casualty and social insurance covering pages 365-384.

The following reports relate to industrial insurance:

Report of the Workmen's Compensation Board of Nova Scotia (Halifax, pp. 31).

Rules of the Michigan Industrial Accident Board (Lansing, pp. 29).

Workmen's Compensation Law of the State of Michigan (pp. 61).

Eighth Annual Report of the Industrial Insurance and Medical Aid Departments of Washington (Olympia, 1920, pp. 95).

PERIODICALS

The **Review** is indebted to Robert F. Foerster for abstracts of articles in Italian periodicals, and to R. S. Saby for abstracts of articles in Danish and Swedish periodicals.

Theory

(Abstracts by Walton H. Hamilton)

Bodin, C. *Esquisse d'une conception et d'une ordonnance scientifique de l'économie.* Rev. d'Econ. Pol., Jan. Feb., Mar.-Apr., 1920. Pp. 21, 30. The nature of economic phenomena make it possible to establish a criterion of true utility to the community in terms of which we can distinguish between "the true or the good" and "the false or the bad" economics.

Carver, T. N. *Changing the balance among economic factors.* Scientia, May, 1920. Pp. 10. A general program for "a proper occupational balance in our population, and a proper balance between people and equipment of various kinds."

Cockerell, T. D. A. *How to solve the industrial problem.* Sci. Mo., July, 1920. Pp. 6. The immediate problem is for the state to impose standards of conduct upon industry. Yet since human society is dynamic its industrial problem, unlike that of a non-human society like the ants, cannot be reduced to final terms.

Davidson, D. *Valutaproblemets teoretiska innebörd.* Ek. Tids., Mar.-Apr., 1920. Pp. 53. Some aspects of the value theory in the light of certain recent Scandinavian experiences.

Dopsch, A. *Werner Sombart, der moderne Kapitalismus.* Archiv f. d. Geschichte d. Sozial., Jahrg. VIII, 1919. Pp. 53. A review of the last edition of Sombart's treatise and an attempt to determine its place in the literature of the development of capitalism.

Fairchild, H. P. *Will the wage system last?* Unpartizan Rev., July-Sept., 1920. Pp. 20. The wage system will not be abolished, but it will be gradually modified.

Fetter, F. A. *Price economics versus welfare economics.* Am. Econ. Rev., Sept., 1920. Pp. 22.

Fetter, F. A. *Price economics versus welfare economics: contemporary opinion.* Am. Econ. Rev., Dec., 1920. Pp. 20.

Huxley, J. S. *Recent work on heredity.* Discovery, July, Aug., 1920. Pp. 5, 6. A non-technical account of the current state of knowledge upon the contribution of heredity to native human equipment.

Janes, G. M. *Scientific method in economics.* Quart. Journ. of Univ. of N. Dak., Apr., 1920. Pp. 7. "Experience, history, and observation are the bases of social science. Economics may be both descriptive and theoretical, but in either case it must be based upon fact. The procedure is from facts to principles."

KANTOR, J. R. *A functional interpretation of human instincts.* Psych. Rev., Jan., 1920. Human action proceeds from reaction complexes which are specific and which take shape within an institutional situation. A thrust at the argument, "It's against human nature."

KITSON, H. D. *Economic implications of the psychological doctrine of interest.* Journ. Pol. Econ., Apr., 1920. To its recent economic discoverers "modern psychology" appears as "a mixture of MacDougall's theories of instincts and Freud's doctrine of suppressed desire." This is "an attempt to call attention to the implications for economic theory and practice resident within the important psychological doctrine of interest."

KNOOP, D. *Outstanding economic problems.* Discovery, May, 1920. Pp. 3. The problem of high prices is really the problem of economic scarcity. This is due primarily to the war.

KOTANY, L. *The accuracy of labor.* Quart. Journ. Econ., Aug., 1920. Pp. 12 The effect of the differences between individuals in "inborn" accuracy upon industrial technique and its expression in wages.

DE LAGUNA, T. *The sociological method of Durkheim.* Phil. Rev., May, 1920. Pp. 13. It errs in giving primary importance to the political structure of society. "In attempting to fix with precision the nature of the ultimate terms of sociological explanation it issues in a dogmatic formalism which is wholly contradictory to the spirit of contemporary science."

LYON, L. S. *A functional approach to social-economic data.* Journ. Pol. Econ., July, 1920. Pp. 36. A plan for a study of economic processes in terms of their social functions.

MACDOUGALL, W. *Motives in the light of recent discussion.* Mind, July, 1920. Pp. 26. A defense of the thesis of his *Social Psychology* and a critical survey of recent contributions by Woodworth, Wallas, and Hocking.

MOULTON, H. C. *An appraisal of Carver's economics.* Journ. Pol. Econ., Apr., 1920. Pp. 10. A skeptical review of the evidence presented in his *Principles of Political Economy* of Carver's "conversion" to "welfare" economics.

OGBURN, W. F. *Psychological basis for increasing production.* Ann. Am. Acad., July, 1920. Pp. 5. A discussion of "control in industry" as affecting "labor's contribution to the variability in the volume of production."

PARKER, C. S. *The human element in the machine process.* Ann. Am. Acad., July, 1920. Pp. 6. The unrest of today "is merely the accumulation of 150 years of domination" "by the machine" over human nature slowly moulded through countless ages.

PATTEN, S. N. *Cosmic processes.* Monist, July, 1920. Pp. 37.

PERKINS, J. F. *Economic fallacies and industrial progress.* Harvard Grad. Mag., June, 1920. Pp. 16. A typical layman's "refutation" of the "fallacies" underlying the argument for a greater control over business.

PERSONS, C. E. *Recent textbooks.* Quart. Journ. Econ., Aug., 1920. Pp. 19.

A review of recent elementary texts in economics, among others those by Turner and Clay.

Sarker, B. K. *The theory of property, law and social order in Hindu political philosophy.* Intern. Journ. Ethics, Apr., 1920. Pp. 20.

Schaub, E. L. *A sociological theory of knowledge.* Phil. Rev., July, 1920. Pp. 21. A review of Durkheim's interpretation of human experience. The natural endowments of individuals are much greater than he estimated.

Sensini, G. *La teoria di Ricardo sui diversi effcti del prestito e dell'imposta.* Giorn. d. Econ., Feb., 1920. Pp. 19.

Shadwell, A. *Capitalism.* Edinburgh Rev., July, 1920. Pp. 15. The first of a series of articles provoked by Tawney's *Acquisitive Society.* "The economic difference between ancient, mediaeval, and modern society is in scale, complexity, and form, not in the plutological principle."

Sharp, F. C. *The problem of a fair wage.* Intern. Journ. Ethics, July, 1920. Pp. 22. An attempt to find in human needs principles for standards that can be used in arbitral wage determination, with an incidental discussion of women's wages.

Sheldon, W. H. *Social tyranny.* Phil. Rev., March, 1920. Pp. 10. "The deepest need of our time is that principle of duality which corrects exclusive individualism and exclusive sociality alike."

Silverstolpe, G. *Jevon's Kapitalbegrepp.* Ek. Tids., Dec. Supp., 1919. Pp. 8. A study of Jevon's concept of capital.

Sommarin, E. *Kapital.* Ek. Tids., Dec. Supp., 1919. Pp. 8. A discussion of the term capital as popularly used and as used in economic literature.

Small, A. W. *A prospectus of sociological theory.* Am. Journ. Soc., July, 1920. Pp. 38. Three separate introductions to a course dealing with "the nineteenth century drive towards objectivity in social sciences." Social science should behave itself and be objective.

Warren, E. H. *Taxation of stock dividends as income.* Harvard Law Rev., May, 1920. Pp. 17. An incidental contribution towards a clarification of the economic concept of income.

Wolfe, A. B. *Some psychological aspects of industrial reconstruction.* Pubs. Am. Sociol. Soc., XIV, 1919. Pp. 15. "The way out of the present chaos of conflict can be only in democracy—in substitution in our national psychology of the democratic ethics for the master-and-servant ethics" and in "knowledge of actual industrial conditions."

Wright, H. W. *The basis of human association.* Journ. Phil. Psych. & Sci. Method, July 20, 1920. Pp. 10. A discussion of the contribution of "the group of instincts" at the root of our industrial activities "to coöperation and association."

Wright, H. W. *Rational self-interest and the social adjustment.* Intern. Journ. Ethics, July, 1920. Pp. 10. An argument against the theory of classical economics that "true knowledge of the essential identity of all

human interests is all that is needed to eliminate from social duty the supposed necessity of self-sacrifice." "It is the exclusiveness of individuality which must be destroyed."

The basis of wages. New Statesman, Apr. 17, 1920. Pp. 2. "The general principle of justice is that the whole available income of the community shall be so distributed among the whole people that no inequality causes hardship, that all inequality that exists bears some definite relation to service rendered, to special needs, or to special hardship or dullness of occupation, and that all inequality is based upon a high minimum standard of universal equality."

Economic History (United States)

(Abstracts by Amelia C. Ford)

Boggs, M. *Americanism one hundred years ago.* (Editor's title.) Indiana Mag. Hist., Mar., 1920. Pp. 4. A private letter, written October 30, 1816, which refers to prices of land and farm products, to wages and taxes, at that time in Allegheny county, near Pittsburgh.

Burr, G. L. *Public utility credit and the development of the Southwest.* Stone & Webster Journ., June, 1920. Pp. 14. Discusses reasons for the decline in popularity of public utility issues, measures necessary to correct the situation, and the unlimited field offered to public service corporations in the Southwest.

Campbell, E. F. *New Orleans in early days.* Geog. Rev., July, 1920. Pp. 6. Summarizes the staple products of Louisiana during the colonial period, and refers briefly to the river trade.

Carson, W. W. *Transportation and traffic on the Ohio and Mississippi before the steamboat.* Miss. Valley Hist. Rev., June, 1920. Pp. 13. Describes the unique types of river craft evolved in the years after the Revolution, with some statistics as to the volume of river trade.

Cunningham, C. H., ed. *A group of four financial reports relating to Louisiana, 1766-1788.* Miss. Hist. Rev., Dec., 1919.

Goodwin, C. L. *Early explorations and settlements of Missouri and Arkansas, 1803-1822.* Mo. Hist. Rev., Apr.-July, 1920. Pp. 40. Contains facts about trade, land prices, land speculation, surveys, farming, and mail service.

Harper, R. M. *Some relations between soil, climate and civilization in the southern red hills of Alabama.* S. Atlantic Quart., July, 1920. Pp. 15. A statistical analysis of two neighboring regions differing in fertility, which brings out four general principles as to density of population, percentage of negroes, contrasts between the races, and price of land.

Henderson, G. *A country boy begins life in Pittsburgh.* Western Pa. Hist. Mag., Jan., 1920. Pp. 12. Includes some facts as to the river traffic at Pittsburgh in 1857, and the work and wages of an office boy in a drygoods store at that time.

Monsen, I. *Interesting recollections of a pioneer woman.* Lindbergh's Nat.

Farmer, Oct., 1919. A homesteader's wife here relates some deeds of loan sharks and corrupt officials in Grant county, Minnesota, in the nineties.

RODGERS, T. L. *Recollections of early times on the Ohio and Pennsylvania Railroad.* Western Pa. Hist. Mag., Jan., 1920. Pp. 6. Contains a brief account of railroad travel in the fifties, the connections with western cities, and various officials of the road.

SAUER, C. O. *The economic problem of the Ozark Highland.* Sci. Mo., Sept., 1920. Pp. 13. Shows that the stagnation of Ozark life is due to topographic isolation which has maintained the social anarchy of the frontier; that the correctives are roads, livestock, and a forest policy.

SCHMIDT, L. B. *Some significant aspects of the agrarian revolution in the United States.* Iowa Journ. Hist. & Pol., July, 1920. Pp. 25. Discusses the six chief factors which transformed agriculture, between 1860 and 1890, from a primitive, pioneer type of industry into a modern business organized on a scientific capitalistic, commercial basis.

SCHMIDT, L. B. *The westward movement of the wheat-growing industry in the United States.* Iowa Journ. Hist. & Pol., July, 1920. Pp. 17. Sets forth the westward march of wheat from the Atlantic states to the great Northwest, and the forces causing the movement.

SHAFER, J. *The Wisconsin domesday book.* Wis. Mag. Hist., Sept., 1920. Pp. 14. Sets forth a plan for a platbook or atlas which will give names of first settlers in each county together with an account of the lands they occupied. This will form a working basis for special studies interpretative of Wisconsin and American history, such as the correlations between party votes and soils, state-origins of the voter, assessment rolls, religious groups, etc.

STATISTICAL DEPARTMENT OF THE GUARANTY TRUST COMPANY OF NEW YORK. *Water power resources and development in the United States.* Econ. Wld., Sept. 18, 1920. Pp. 4. Explains the plan to supplement the use of coal and petroleum as energy sources by a fuller utilization of water power, under the terms of the new, liberalized water-power law.

WESEEN, M. H. *The cooperative movement in Nebraska.* Journ. Pol. Econ., June, 1920. Pp. 22. A survey of the early history of the movement, of its present secure, favorable status, and its future possibilities.

WOOD, F. J. *Paper money and Shay's rebellion,* part II. Stone & Webster Journ., June, 1920. Pp. 13. A narrative of the events of the rebellion and its suppression; contains nothing about paper money.

Economic History (Foreign)

ANDRÉ, E. L. *El problema de Tànger y los intereses económicos de Espana en Marruecos.* Rev. Nac. de Econ., VIII, 24, 1920.

BAASCH, E. *Der Interessengegensatz zwischen Kaufmann und Reeder in älterer Zeit, namentlich in Hamburg.* Schmollers Jahrb., Jahrg. 44, Heft 2, 1920.

BLIVEN, B. *America and the soviets.* New Repub., June 16, 1920.

CASTRE, C. *The social and industrial situation in France.* Am. Rev. Rev., June, 1920.

CLAPHAM, J. H. *The economic condition of Europe after the Napoleonic war.* Sci. Mo., Oct., 1920.

CORYNDON, R. *Uganda.* United Empire, June, 1920.

DE VIAR, J. A. *Asturias.* Rev. Nac. de Econ., VIII, 23, 1920.

GODFREY, E. H. *Fifty years of Canadian progress, 1867-1917.* Journ. Royal Stat. Soc., Jan., 1920.

GRUENBERG, C. *Das Grundgesetz der russischen Sovjetrepublik.* Archiv f. d. Geschichte d. Sozial., VIII, 2-3, 1920.

DE GUETARY, J. *Cronica economica y financiera de Bilbao.* Rev. Nac. de Econ., VIII, 23, 1920.

HERRFAHRDT, H. *Das Problem des berufständischen Vertretung im Zeitalter Bismarcks.* Schmollers Jahrb., Jahrg. 44, Heft 2, 1920.

KAHN, O. H. *The progress made by Europe in financial and economic reconstruction.* Econ. Wld., June 19, 1920.

VON KAUFMANN, G. *Dänemarks wirtschaftliche Lage.* Blätter Vergleich. Rechtswis., Feb.-June, 1920.

KLOPSTOCK, P. *Poland today: its problems, opportunities and progress.* Econ. Wld., July 31, 1920.

MARTIN, P. F. *Economic conditions in the Central Americas.* Finan. Rev. Rev., June, 1920.

MARTIN, P. F. *Finance and economics in Italy.* Finan. Rev. Rev., Sept., 1920.

NEVILLE, A. O. *Through the Northwest of Australia.* United Empire, July, 1920.

SHAH, D. A. *Economic thought in India.* Journ. Indian Econ. Soc., Dec., 1919.

SZABO, E. *Aus den Parteien un Klassenkampfen in der ungarischen Revolution von 1848.* Archiv f. d. Geschichte d. Sozial., VIII, 2-3, 1920.

ROHTLIEB, C. *Näringlifvets rationaliserung.* Ed. Tids., Dec. Supp., 1919. Pp. 14. Rationalizing the economic life of the individual especially through state interference with supply and demand in the light of Swedish history and of the experiences during the World War.

Argentine conditions indicate another year of high productivity. Americas, June, 1920.

Commercial and industrial conditions in China in 1919. Econ. Wld., Aug. 28, 1920.

Deux enquêtes sur la situation de la Russie au point de vue économique. L'Europe Nouvelle, July 18, 1920.

Informacion economico-financiera nacional y extranjera. Rev. Nac. de Econ., VIII, 23, 1920.

Nationalekonomiska studies tillagnade Professor Davidson. Ek. Tids., Dec. Supp., 1919. Pp. 188. A group of nine economic studies written by members of the Swedish Economic Club, published as a supplement to the December number of the *Ekonomiskt Tidskrift* and dedicated to Professor Davidson in appreciation of forty years of faithful and fruitful academic service in the field of economics and finance.

Preliminary thoughts on the efficiency of the Bombay textile labour. Journ. Indian Econ. Soc., Dec., 1919.

La politique économique depuis l'armistice e les élections. L'Econ. Moderne, Apr., 1920.

Agricultural Economics

(Abstracts by A. J. Dadisman)

Coni, E. A. *La maquinaria agricola en el tercer censo national.* Rev. de Econ. Argentina, Jan, 1920. Pp 6. A statement of errors in the third national census in Argentina.

Doin, P. *La vie chère et ses repercussions dans l'ordre agraire.* Ref. Soc., July-Aug.. 1920. Pp. 30. A discussion of recent economic changes in France in relation to the well being of rural people.

Dubey, D. S. *The Indian food problem.* Indian Journ. Econ., July, 1920. Pp. 27. A statistical study of the requirements of food grains and the supply in British India.

Fisher, F. D *Agricultural conditions in South Africa.* U. S. Bur. For. & Dom. Com., Rept. No. 63, Mar., 1920. Pp. 3. A statement of the natural agricultural conditions and possibilities in South Africa.

Johnson, O R. and Green, R. M. *Cost of producing some Missouri farm crops.* Mo. Sta. Bull. 165 (1919), Aug., 1919. Pp. 26. Cost of producing nine of the principal cereal and forage crops. Costs are based on farm diary accounts; eighteen tables.

Johnson, O. R. and Green, R. M. *Renting land in Missouri.* Mo. Sta. Bull. 167 (1920). Feb., 1920. Pp. 52. A comparison of the farm business under different types of tenure, with lease forms. Data from 484 farms.

Mackaye, B. *A plan for coöperation between farmer and consumer.* Mo. Labor Rev., Aug., 1920. Pp. 21 Outline of a plan showing possibilities of using postal motor transport service in the distribution of farm products. Six tables, 5 figures, 5 maps.

Michel, M. B. *La question agraire en Roumanie.* Ref. Soc., May, 1919. Pp. 22. An analysis of Rumanian laws relating to land problems.

Rambaud, B. *Les progres de l'agriculture en France et en Allemagne.* Rev. d'Econ. Pol., May-June, 1920. Pp. 3. A statistical comparison of production of the principal crops and livestock in the two countries.

The coöperative marketing of livestock. Int. Rev. of Agri. Econ., Jan., 1920. Pp. 6. A brief description of systems of coöperative marketing of livestock in three Canadian provinces.

The production of flax. Com. Mo., Sept., 1920. Pp. 6. A discussion of the present status of the flax industry.

Railways and Transportation

(Abstracts by Julius H. Parmelee)

Allix, G. *Les résultats de 1919.* Journ. des Trans., June 26, July 24, Aug. 7, 1920. Pp. 2, 3, 4. North-South of Paris Railway; Northern Railway; Eastern Railway.

Atterbury, W. W. *Two great problems before American railroads.* Ry. Age, Oct. 1, 1920. Pp. 3. Adequate revenues and efficiency.

Baldwin, W. W. *The making of the Burlington.* Ry. Rev., Oct. 9, 1920. Pp. 6. Brief history of the C. B. and Q. system.

Bradford, E. A. *State and federal rights in railroad rates dispute.* Annalist, Aug. 30, 1920. Pp. 2.

Cadoux, G. *Quelle est la situation des chemins de fer de la Russie?* L'Econ. Franç., Sept. 25, 1920. Pp. 2.

Currie, C. W. Y. *What the railroad man in other countries gets for his daily work.* N. Y. Central Lines Mag., May, 1920. Pp. 4.

Day, E. E. *The merchant marine fleet: a war achievement, a peace problem.* Quart. Journ. Econ., Aug., 1920. Pp. 40.

Drew, W. *Future control of railway labor.* Am. Industries, Oct., 1920. Pp. 2.

Dunn, S. O. *The economic value of railway safety work.* Ry. Age, Oct. 8, 1920. Pp. 3.

Emery, J. A. *The railroad labor crisis today.* Am. Industries, Oct., 1920. Pp. 2. Menace of combination of railway unions to unorganized employees.

Fayant, F. H. *To increase railroad efficiency.* Unpartizan Rev., Oct.-Dec., 1920. Pp. 12. Analyzes results of government operation of the railways, and situation under renewal of private operation under Transportation act.

Guyot, Y. *La réforme des chemins de fer.* Journ. des Econ., July 15, 1920. Pp. 14.

Harris, J. A. *Essential services in railway operations and control.* Ry. Gaz. (London), July 23, Sept. 17, 24, 1920. Pp. 2, 2, 2. Third, fourth, and fifth articles in an unfinished series. First two abstracted in September issue of this Review.

Henry, T. W. *A new trans-Australian railway project.* Trans-Pacific, Aug., 1920. Pp. 4. With maps and illustrations.

Johnston, F. *The Transportation act, 1920.* Virginia Law Rev., Apr., 1920. Pp. 33.

Liesse, A. *Le régime futur des chemins de fer français.* Rev. Pol. et Parl., July 10, 1920. Pp. 13.

Liesse, A. *Le régime nouveau à appliquer aux chemins de fer d'intérêt général.* L'Econ. Franç., June 19, 1920. Pp. 3.

Lisman, F. J. *The sad romance of the Detroit, Toledo, and Ironton.* Ry. Age, July 23, 1920. Pp. 3. Road purchased by Henry Ford.

MacLean, H. C. *Railway situation in Italy.* Ry. Rev., Aug. 21, 1920. Pp. 3. Report made by U. S. Trade Commissioner at Rome, reprinted from *Commerce Reports* for August.

Parmelee, J. H *Is railway efficiency increasing?* Coal Rev., Oct. 6, 1920. Pp. 4. Gradual improvement since March 1.

Paszkowski, F. *Eisenbahnpolitik Norwegens.* Archiv f. Eisenbahnw, May-June, July-Aug., 1920. Pp. 31, 41. Series to be continued.

Peirce, E. C. *Development of the steam locomotive.* Proc. Ry. Club of Pittsburgh, Mar. 26, 1920. Pp. 12.

Price, T. H. *The advance in railroad rates.* World's Work, Oct., 1920. Pp. 3. Effect on cost of living.

Rhea, F. *Railway valuation.* Ry. Rev., Aug. 14, 21, Sept. 4, 11, 18, Oct. 9, 30, 1920. Seventh through eleventh articles in a series abstracted in September issue of this Review. Cost of reproduction new and less depreciation.

Stiles, O. W. *Municipal freight terminals.* Ry. Rev., Aug. 14, 1920. Pp. 3.

Thomas, F. W. *The Santa Fe apprentice system.* Journ. Western Soc. of Engrs., July 20, 1920. Pp. 7.

Wright, P. *The work of the Russian Railway Service Corps.* Ry. Age, July 23, 1920. Pp. 4.

The assessment of railways. Ry. Gaz. (London), Sept. 17, 1920. P. 1. Revaluation of British railway properties for taxation.

Car building in first seven months of 1920. Ry. Age, Sept. 24, 1920. Pp. 2.

Increased rates authorized by I. C. C. Ry. Age, Aug. 6, 1920. Pp. 12. Digest of commission's rate decision of July 29.

Mail subsidies and steamship subventions as controlled by the Department of Trade and Commerce. Report of Dominion of Canada, fiscal year ending March 31, 1919, with traffic returns, etc., to December 31, 1919. Pp. 91. An interesting compilation of useful data relating to these important topics.

Railway electrification in Italy. Mod. Trans. (London), Oct. 2, 1920. Pp. 3. Proposed program for electrifying Italian state railway system.

Railway statistics for 1919 compared with 1913. Aug. 20, 1920. Pp. 6. Summarized comparison for eleven principal British railways.

The raise in railroad rates. Nation's Business, Sept., 1920. Pp. 2.

La réorganisation des chemins de fer. Journ. des Trans., June 26, 1920. Pp. 3.

Les résultats de 1919. Journ. des Trans., Aug. 21, 1920. Pp. 4. Analysis of Metropolitan system of Paris.

Die sachsischen Staatseisenbahnen in den Jahren 1917 und 1918. Archiv f. Eisenbahnw., July-Aug., 1920. Pp. 11.

Die schweizerischen Bundesbahnen im Jahr 1918. Archiv f. Eisenbahnw., May-June, 1920. Pp. 8.

Commerce

(Abstracts by Harry R. Tosdal)

Bernhardt, J. *The transition from government control of sugar to competitive conditions.* Quart. Journ. Econ., Aug., 1920. Pp. 17. Traces sugar situation from beginning of 1919 to present. Government control no longer desirable.

Chelmsford, Lord. *Indian trade and industry.* Wealth of India, Mar., 1920. Pp. 5. India will continue former liberal trade policy and not strangle competition by means of government action. Urges trademark act, imperial preference in tariffs, and other measures.

Clynes, J. R. *Food control in war and peace.* Econ. Journ., June, 1920. Concludes that government intervention in distribution of food should continue in England until trade and commerce are restored to a pre-war level. Prevention, rather than prosecution of abuses, is to be desired.

Copeland, M. T. *Scope and content of a course in marketing.* Journ. Applied Econ., May, 1920. Pp. 23. Outlines the course in marketing in the Harvard Graduate School of Business Administration, of which the two major divisions are marketing methods, including both retail and wholesale distribution and sales policies of manufacturers.

Day, C. *The pre-war commerce and the commercial approaches of the Balkan Peninsula.* Geog. Rev., Apr.-June, 1920. Statistical analysis of commerce of Balkan countries with reference to the years 1910 and 1911.

Duncan, C. S. *Potent forces seen shaping the new era of business.* Annalist, June 21, 1920. P. 1. "Interdependence of industries makes the control of raw materials a tremendous coercive power, while the movement towards nationalization and the world-wide organization of employer and employed are noted as important factors."

Eldred, W. *The grain corporation and the guaranteed wheat price.* Quart. Journ. Econ., Aug., 1920. Pp. 21. Operation of wheat price guarantee acts of 1917 and 1919 successful in stimulating production of wheat and reducing fluctuation in price without cost to government.

Heckscher, E. F. *Utrikeshandelns verkan paa inkomsfördelingen.* Ek. Tids., Dec. Suppl., 1919. Pp. 32. A theoretical study of foreign trade in its relation to the distribution of national income.

Howell, H. P. *The international market for iron and steel.* Comm. Mo., July, 1920. Pp. 9. Statistical study of international market for iron and steel, in which the writer urges larger exportation by United States producers.

Lee, G. S. *Abaco (Manila hemp): the fiber monopoly of the Philippine Islands.* Sci. Mo., Aug., 1920. Description of cultivation, uses and commercial possibilities of Abaco, with brief statement concerning minor fiber plants.

Lewis, R. A. *Government marine proving to be a costly venture.* Annalist, May 31, 1920. Pp. 2. Earnings on the $1,500,000,000 investment less than 2½ per cent without allowance for normal depreciation. Declining freight rates make problem more difficult.

McFadden & Bro. Statistical Bureau. *The present situation of the cotton industry on the continent of Europe.* Econ. World, July 10, 1920. Pp. 3. Extract from extended study of "The World's Cotton Industry: Present Conditions Compared with Normal Times (1920-1913)."

Mills, J. K. *International trade figures show Europe convalescing.* Annalist, June 7, 1920. Pp. 2. America's trade balance with Europe has been declining, due to increase in Europe's exports.

Welch, R. L. *The price of petroleum products in the United States from the standpoint of supply versus demand.* Econ. World, July 3, 1920. Pp. 2. Summary of a memorandum submitted by the American Petroleum Institute to the Federal Trade Commission. Excess of consumption over production justifies recent changes in prices of petroleum products.

Vanderlip, F. A. and Williams, J. H. *Consequences of the changed position of the United States in international trade.* Econ. World, May 29, 1920. Pp. 2 Brief resumé of article from *Review of Economic Statistics,* calling attention to the fact that our huge excess of exports is disappearing, while imports are increasing, and suggesting that overturn of trade balance may be postponed for several years by moderate annual foreign investment or by wiping off part of government credits.

The American lumber industry. Comm. Mo., Aug., 1920. Pp. 8. Statistical review of the domestic lumber industry, dealing with production, consumption, imports and exports of lumber in United States.

Is Germany going the financial way of Soviet Russia? Annalist, June 21, 1920. P. 1. German government issued in May, 1920, over four billion marks of uncovered paper currency.

Japanese-American trade. Comm. Mo., Sept., 1920. Pp. 8. Statistical report of rapid development of trade between United States and Japan during the last decade, showing that the Japanese are becoming important factors in international market.

Jute: its production, supply and distribution. Econ. World, June 19, 1920. Pp. 4. Statistical review of jute production and distribution.

Mexico offers a fertile field for American trade extension. Americas, July, 1920. Pp. 5. Mexico offers large and receptive market for United States.

Seventh national foreign trade convention. Bankers Mag. (Am.), June, 1920. Pp. 21. Resumé of papers read at seventh national foreign trade convention held at San Francisco, May 12-15, 1920.

Trade relations of the west coast of South America. Comm. Mo., July, 1920. Pp. 10. Gives figures showing great extent to which construction of Panama Canal has increased trade between United States (particularly eastern and west coast of South America).

United States losing trade opportunities in South America. Annalist, June 28, 1920. Pp. 2. From July, 1919, to March, 1920, our exports to six principal South American countries increased only 13 per cent, while our imports from these countries, compared with same period in 1919, jumped 48 per cent, giving United States adverse trade balance of more than $291,000,000.

West coast ports brought to our door by the Panama Canal. Americas, July, 1920. Pp. 6. Illustrated account of part played by Panama Canal in bringing about improved trade conditions between United States and west coast of South America and also between east and west coasts of South America.

Public Utilities

(Abstracts by Charles S. Morgan)

Anderson, H. C. *The construction period.* Mech. Engg., Oct., 1920. Pp. 2. A description of the various methods used in computing the allowances for interest and taxes during construction.

Ashfield, Lord. *London's traffic problem.* Nineteenth Cent., May, 1920. Pp. 16. A discussion of the need for a well-planned development of London's transportation facilities and of the relative merits of various types of transportation agency, with suggestion that all transportation agencies be transferred to private enterprise under a pooling arrangement to allay conflict of interest and under unified public control.

Bibbins, J. R. *City building and transportation.* Journ. West. Soc. Engrs., Aug. 20, 1920. Pp. 59. Comprehensive discussion of need for city planning and of relation of means of transit thereto.

Bibbins, J. R. *Rational valuation—a comparative study.* Mech. Engg., Oct., 1920. Pp. 4. A valuable discussion of need for studying the fundamental economic principles which underly the valuation of utility property, with a useful illustrative example taken from the life historv of a typical utility undertaking.

Brinckerhoff, H. M. *Functions of rapid transit lines in cities.* Elec. Ry. Journ., Oct. 2, 1920. Pp. 6. A statistical analysis shows greater dependence on surface lines than is commonly supposed; rapid transit and surface lines should therefore be supplementary so far as possible.

Capes, W. P. *How cities of New York state defeated efforts of street railway companies to escape cost of car track paving.* Munic. & County Engg.,

Aug., 1920. Pp. 3. A summary of arguments, technical and economic, against exemption of street railways from this particular duty.

CATLETT, F. W. *The fate of the five-cent fare.* XII. *Municipal ownership in Seattle.* Nat. Munic. Rev., Sept., 1920. Pp. 8. Statement of reasons for difficulties being encountered by Seattle in its experiment with municipal ownership, with brief sketch of history of the undertaking.

CLARK, H. C. *Politics and politicians.* Aera, July, 1920. Pp. 86. Discussion of Detroit's transportation problem, its historical background and the proposed municipal lines.

DRAPER, W. A. *Incentive in service at-cost* Aera, Oct., 1920. Pp. 3. Service-at-cost franchises are defective unless they furnish incentive for efficiency on the part of private management.

EDGERTON, E. O. *The reward for efficiency.* Gen. Elec. Rev., Aug., 1920. Pp. 4. Argument for granting a reward for efficiency in public utility management, such reward to be a part of a general system which would appeal to all ranks of utility employees.

ELMES, C. F. *Price levels in relation to value.* Mech. Engg., Oct., 1920. Pp. 4. Payments for public utility service should be adjusted to the variations in the purchasing power of money.

GEPHART, W. F. *Financing electric public utilities.* Elec. World, Sept. 4, 11, 1920. Pp 2, 2. Difficulties encountered in securing necessary capital and statistical analysis showing high return required to be paid on utility securities.

GWINN, D. R. *The high cost of money to public utilities.* Journ. Am. Water Works Assoc., July, 1920. Pp. 6. A plea for liberality in treatment of public utilities based on urgent necessities of the situation.

HAGENAH, W. J. *State versus local regulation of public utilities.* Elec. Rev., Aug. 18, 1920. Pp. 8. A rather comprehensive statement of the case for the *status quo* in state regulation.

HUNGERFORD, E. *Series of articles on salient phases of the electric railway situation, continued.* V. *Detroit.* VI. *California and her tractions*—parts 1, 2. Elec. Ry. Journ., July 24, Aug. 14, Sept. 11, 1920. Pp. 6, 5, 4.

JACKSON, W. *The place of the bus.* VI. Elec. Ry. Journ., July 31, 1920. Pp. 10. Last of series. Bus transportation considered a supplementary form of transportation if proper accounting with costs and responsibilities is had.

KIRKPATRICK, J. J. *Genuine savings through municipal ownership. The story of the Holyoke, Mass., municipal plants.* Am. City, Sept., 1920. Pp. 3.

LEDOUX, J. W. *Some observations covering the public service commission.* Journ. Am. Water Works Assoc., July, 1920. Pp. 8. Discussion of practice of Pennsylvania commission as to valuation and rate of return and effect thereof.

LITTLE, A. S. B. *Chicago rate case valuation.* Gas Age, Sept. 10, 1920. Pp.

7. Explanation of how a conference committee representing all parties in interest expedited the reaching of an acceptable valuation.

METCALF, L. *The war burdens of water works in the United States continue.* Journ. Am. Water Works Assoc., July, 1920. Pp. 6. Extensive statistical analysis of trend of costs and effect on net revenue.

MYERS, G. L. *Competition in the public utility industry.* Journ. of Elec., Oct. 1, 1920. Pp. 4. Argument that competition in utility field is undesirable and that proper regulation renders it unnecessary.

PAINE, F. B. H. *The cost of organizing and financing a public utility project.* Mech. Engg., Oct., 1920, Engg. & Contracting, July 16, 1920. Pp. 3, 3. Additions to the total direct and indirect construction cost should be made for the outlays incurred in developing the project, in procuring funds and in remunerating the promoter, in the amount of differing percentages. Explanation of manner in which these percentages were derived.

RANSOM, W. L. *An epoch-making ruling in rate cases.* Am. Gas Assoc. Monthly, July, 1920. Pp. 3. A ruling of special master in case of Consolidated Gas Company of New York permitting the introduction of company's accounting records in evidence is considered to be of importance as facilitating the hearing of rate cases.

SURGUY, H. *Bridgeport tries the jitney.* Aera, Oct., 1920. Pp. 14. The exclusive use of bus transportation for eight weeks in Bridgeport, Conn., is said to have demonstrated the inability of buses to meet the transportation needs of the city.

WILCOX, D. F. *Appraising public utility properties.* Am. City, Sept., 1920. Pp. 2. Criticism of recent legislation in New Jersey which has taken from the public utilities commission and placed in the hands of a new commission the authority to make valuations, especially in view of the fact that such valuations are to be accepted as determinative in rate cases.

Are railways and public utility companies entitled to dividends upon "unearned increments" in value? Engg. & Contracting, June 16, 1920. P. 1. Brief argument that a careful definition of terms would tend to eliminate the "unearned increment."

Canadian hydro-electric proves failure. Pub. Service, Aug., 1920. Pp. 7. Criticism of this large undertaking of the Province of Quebec.

Cincinnati director reports. Elec. Ry. Journ., Sept. 4, 1920. Pp. 3. First annual report under Cincinnati's service-at-cost franchise.

Cost of reproduction theory and the world war. Mich. Law Rev., June, 1920. Pp. 6. Cost of reproduction basis of valuation criticised because of its instability, and "efficient investment" basis advocated, with citation of cases showing tendency to adopt the latter.

Federal commission makes report to the President. Aera, Sept., 1920, Elec. Ry. Journ., Aug. 28, 1920. Pp. 31, 14. Full text of the report, recently issued, of the special Federal Electric Railways Commission.

Natural gas rate decisions. Gas Age, Aug. 25, 1920. Pp. 2. Abstracts of

recent decisions bearing on interstate movement of natural gas and its conservation.

Pays heavy tolls on city gas plant. Pub. Service, Aug., 1920. Pp. 2. Criticism of Richmond (Va.) municipal gas plant.

Prices and rates of return on public utility investments. Econ. World (N. Y.), Aug. 14, 1920. Pp. 4. An examination of the causes which account for the high cost of investment funds to public utilities.

Public confidence in public utilities must be restored. Annalist, Aug. 16, 1920. P. 1. Argument advanced that public interest demands liberal treatment of utilities.

Rochester accepts new agreement. Elec. Ry. Journ., July 31, 1920. Pp. 2. Summary of principal provisions of the most recently adopted service-at-cost franchise.

Traction service at cost. New Republic, Sept. 22, 1920. Pp. 2. Consideration of the equities in the electric railway franchise situation and of the potentialities of "service-at-cost" franchises.

Accounting

(Abstracts by Martin J. Shugrue)

Armstrong, R. D. *Regulation of bond discount.* Journ. Account., July, 1920. Pp. 18. The proper treatment of discount suffered in the sale of bonds is one of the most controversial questions which public service commissions have had to face. Cites many legal cases to show that the fundamental principles have emerged with a fair degree of clearness, and in their general outlines are fairly well defined. Bond discount not a capital charge. Amortization charge not an operating expense.

Ahlberg, T. J. *Accounting for retail shoe stores.* Journ. Account., Aug., 1920. Pp. 8. Contains classification of operating accounts for an average business and briefly explains the items to be charged to each. Illustrated forms.

Bomer, C. F. *Iron mine accounting.* Journ. Account., Sept., 1920. Pp. 5. Some peculiarities in keeping the system of general accounts as well as the cost accounts.

Buettner, L. A. *Accounting for a magazine publishing business.* July, 1920. Pp. 6. In the explanation given the required entries are presented in journal form, together with a description of the more complicated records.

Chase, S. *What is a reasonable profit?* Journ. Account., June, 1920. Pp. 18. Of all methods which have been advanced for passing judgment on profits, the rate of economic profit on economic capital and the rate of net profit on net worth are the two tenable bases which have a more or less universal application.

Devlin, J. H. *Accounting for proprietary preparations.* Journ. Account., July, 1920. Pp. 7. While this article might apply in general to all trade-

marked preparations including foodstuffs, paints, etc., it has special reference to patent medicines, toilet preparations, and the like.

Dusenbury, B. A. *Accounting for wireless service companies.* Pace Student, Aug., 1920. Pp. 3.

Gower, W. B. *Advisory accounting.* Journ. Account., Oct., 1920. Pp. 9.

Greenfield, H. G. *Accounts of instalment furniture dealers.* Journ. Account., Aug., 1920. Pp. 9. Concrete description of accounting forms.

Jackson, J. H. *Depreciation policy and true cost.* Journ. Account., June, 1920. Pp. 3. It has come to be a common question whether depreciation should be charged on the basis of the cost of wasting assets or on the basis of what it will cost to replace these assets.

Jordan, H. C. *Accounts for the manufacture of wood veneer.* Journ. Account., Aug., 1920. Pp. 7. Presents the subject in a specific manner.

Krohn, T. *Taxation of capital profits and stock dividends.* Journ. Account., Aug., 1920. Pp. 7. Discussion of some important decisions by the Treasury Department.

Leffler, E. E. *Accounting for a professional institute.* Journ. Account., Sept., 1920. Pp. 6. Describes principal books necessary, outlines the accounts and explains method for recording the various revenues and expenditures. Also considers preparation of a budget, the treatment of accounts payable and some other matters of a more or less general character.

Narlian, C. A. H. *Accounts for engineers and contractors.* Journ. Account., Aug., 1920. Pp. 7. A general statement of the accounting requirements for construction work.

Nash, L. R. *Accounting for public utility replacements.* Stone & Webster Journ., June, 1920. Pp. 7. The accumulated replacement reserve, instead of being a fixed percentage of the investment, might with propriety, because of essential indefiniteness, be set up with maximum and minimum limits from 30 per cent to 50 per cent above and below the normal respectively. Such flexibility in replacement appropriations would tend to stabilize returns to investors and would insure an accumulation of replacement funds sufficient for all practical purposes.

Paton, W. A. *Depreciation, appreciation, and productive capacity.* Journ. Account., July, 1920. Pp. 11. Other writers in previous articles in this periodical have pointed out the importance of increased renewal costs in regard to the matter of depreciation charges. Some new comments are contributed to the discussion.

Perrine, L. L. *Some difficulties in percentages.* Journ. Account., July, 1920. Pp. 6. Why percentage computations are frequently erroneous and how such difficulties may be avoided.

Ross, F. A. *Growth and effect of branch offices.* Journ. Account., Oct., 1920. Pp. 10. Questions of policy for an accounting firm.

Shmerler, M. *Accounting for an export house.* Journ. Account., Aug.,

1920. Pp. 11. Illustrated forms and a general description of a typical system.

WILDMAN, J. R. *Certified financial statements as a basis for credit.* Journ. Account., Sept., 1920. Pp. 7. Why bankers consider it important that financial statements be certified.

WILDMAN, J. R. *Supervising the work of the accounting staff.* Journ. Account., Oct., 1920. Pp. 7.

WRIGHT, W. R. *Accounting for the agricultural machinery industry.* Journ. Account., June, 1920. Pp. 17.

American Institute of Accountants. May examinations. Journ. Account., June, 1920 Pp. 15.

Investments and Securities

(Abstracts by A. S. Dewing)

ADDINSELL, H. M. *Public service bonds.* Ann. Am. Acad., Mar., 1920. Pp. 9. A consideration of principles underlying sound public utility financing with survey of conditions which point to inherent strength of public utility securities.

ARENS, H. F. and BANCROFT, J. R. *The history of bond prices.* Ann. Am. Acad., Mar., 1920. Pp. 5. Deals with British consols, United States government bonds, railroad bonds; gives causes for fluctuation after the Civil War and appends six charts showing the trend of bond prices.

MORRIS, R. *Oil and the investor.* World's Work, Feb., 1920. Pp. 5. Discusses the speculative chances of the investor in oil securities.

SMITH, J. S. *Reclamation of swamp lands and the modern drainage bond.* Ann. Am. Acad., Mar., 1920. Pp. 12. States the amount and distribution of swamp lands, organization of modern drainage districts, the provisions of a typical drainage law, and the successful working of a drainage project in Missouri, as a basis for the bond discussion.

Labor and Labor Organizations

(Abstracts by David A. McCabe)

ACHESON, D. *Rock Island.* New Repub., Aug. 25, 1920. Pp. 3. A review of the workings of the plan of coöperation between the workers and the Ordnance officers for the securing and execution of orders, on a competitive basis, from other departments of the government. The workers carried their part through successfully but the plan was wrecked by the Ordnance Department.

ACLAND, F. A. *Canada and International Labour Office.* Lab. Gaz. (Canada), July, 1920. Pp. 23. The report of the Canadian government representative on the Governing Body of the International Labor Office. Includes an outline of the labor provisions of the peace treaty and a summary history of the steps in the organization of the international labor agencies and of the actions taken by them through March, 1920.

ACLAND, F. D. *Le salaire minimum dans l'agriculture de l'Angleterre et du Pays de Galles.* Rev. d'Econ. Pol., Jan.-Feb., 1920. Pp. 21. Description of the workings of the law and results achieved under it, by a member of the Wages Board.

BRISSENDEN, P. F. and FRANKEL, E. *Mobility of labor in American industry.* Mo. Lab. Rev., June, 1920. Pp. 21.

C., H. B. *Preliminary thoughts on the efficiency of the Bombay textile labour.* Journ. Indian Econ. Soc., March, 1920. Pp. 10. Efficiency of native labor would be greatly increased by increasing wages and reducing the length of the working day. With the same real wages and the same considerate treatment Indian labor would be as efficient as English.

CARPENTER, O. F. *Two years of industrial legislation in a large clothing factory.* Mo. Lab. Rev., Aug., 1920. Pp. 12. The Leitch plan of industrial representation as originally adopted has been modified, at the initiative of the workers, to secure greater rapidity of action—and in the direction of collective bargaining. The organization has a record of solid achievement.

COLE, G. D. H. *British labor hesitates.* New Repub., Sept. 29, 1920. Pp. 3. British labor is not yet fired for revolution, nor has it a definite program for a new order.

CONYNGTON, M. *The government's wage policy during the last quarter century.* Mo. Lab. Rev., 1920. Pp. 17.

COOTE, C. R. *Is industrial peace possible?* Nineteenth Cent., Sept., 1920. Pp. 13. Present tendencies are toward a struggle to decide which class shall dominate. Advocates copartnership in control and rewards.

DE MAN, H. *Industrial councils in Belgium.* Survey, July 3, 1920. Pp. 5. An interesting description of the organization, functions, and policies of the joint bodies which have grown up in all the important industries since the war, with national collective bargaining as their basis. This system has proved very efficacious in the work of industrial rehabilitation.

DEOLE, C. S. *The Bombay strikes.* Journ. Indian Econ. Soc., Dec., 1919. Pp. 10. The strikes were unorganized and due to continued rise in living costs. They might have been prevented by prompt and reasonable action by the employers.

FISH, E. H. *What are we likely to do about the labor unions?* Indus. Manag., Aug., 1920. Pp. 4. Employers must gain the confidence of their employees by educating them to understand every factor affecting the employer's ability to pay wages. Meantime, the employers will probably have to meet with union delegates as representatives of the workers.

FLORENCE, P. S. *An official American study of industrial fatigue.* Econ. Journ., June, 1920. Review of *Fatigue in Relation to Working Capacity—Comparison of an Eight-Hour Plant and a Ten-Hour Plant,* U. S. Public Health Bulletin no. 106.

GOMPERS, S. and WOLL, M. *The European brainstorm.* Am. Fed., Oct., 1920.

Pp. 10. The revolutionary policies of the leaders of the new International Federation of Trade Unions.

HATHAWAY, H. K. *Logical steps in installing the Taylor system of management.* Indus. Manag., Aug., 1920. Pp. 8. Includes a brief statement of the causes of "soldiering" by workmen.

HURD, A. *The great siege: British labour and bolshevism.* Fortn. Rev., Aug., 1920. Pp. 15. British labor is being drawn by a minority in the direction of revolution.

JACKSON, G. E. *Unemployment in Eastern Canada.* Econ. Journ., June, 1920. Pp. 9. Analysis of causes of unemployment and of measures adopted to reduce it.

KLINE, B. *Speeches at a Standard Oil Meeting of employees' and company's representatives.* Indus. Manag., July, 1920. Pp. 8.

KOEN, J., JR. *Labor's share in building costs.* Mag. Wall St., Sept 4, 1920. Pp. 3. Shortage of skilled labor in the building industry will keep wages up for some time to come. This shortage is due to greater regularity of employment and superior working conditions in newer industries and to preference of young men for office positions.

KOTANY, L. *The accuracy of labor.* Quart. Journ. of Econ., Aug., 1920. Pp. 13. Differences in relative accuracy between workers constitute the most important basis of the division of labor and of wage differentiation within the same occupation.

KUMPMANN, K. *Der Kampf gegen die Arbeitslosigkeit und die Reichsarbeitslosenversicherung.* Schmollers Jahrb., Jahrg. 44, Heft 2, 1920. Pp. 64. Critical review of recent German experience with measures to reduce unemployment and of unemployment insurance, concluding with a criticism of the proposed unemployment insurance law.

LASKI, H. J. *British labor and direct action.* Nation, Sept. 11, 1920. Pp. 2. The threat of a general strike in August, 1920, to prevent war with Soviet Russia was an emergency measure. British labor as a whole would not favor the policy of the general strike on domestic issues.

LESCURE, J. *Le mouvement ouvrier depuis l'armistice jusqu'en mars, 1920.* Rev. d'Econ. Pol., May-June, 1920. Pp. 21. Reviews the striking developments in the French and British labor movements since the armistice. Opposes compulsory arbitration. Emphasizes the need of greater production.

LEUDERS, M.-E. *Die Entwicklung der gewerblichen Frauenarbeit im Kriege* II. Schmollers Jahrb., Jahrg. 44, Heft 2, 1920. Pp. 23. Deals with the training of the women for wartime employments, relative pay, special measures of protection, and the problems raised for the future.

MACDONALD, J. R. *The British labor party conference.* Nation, July 24, 1920. Pp. 2.

MAGNUSSON, L. and GADSBY, M. A. *Federal intervention in railroad labor disputes.* Mo. Lab. Rev., July, 1920. Pp. 18.

MARTIN-SAINT-LEON and others. *La representation des ouvriers et employés dans les entreprises industrielles.* Soc. d'Econ. Soc., Apr., 1920. Pp. 21. A paper, followed by discussion, on employee's representation plans in other countries and the possibilities of successfully introducing such systems in France.

MORRIS, V. P. *The Oregon minimum wage, its problems and possibilities.* Commonwealth Rev., Apr.-July, 1920. Pp. 30. A review of the Oregon minimum wage experience with suggestions for improvements.

NORTHCOTT, C. H. *What the British worker is thinking.* Indus. Manag., Aug., 1920. Pp. 4.

READ, C. *The political progress of the English workingman.* Journ. Pol. Econ., June, July, 1920. Pp. 13, 17. Reprint of a lecture. The first instalment covers the period from the Middle Ages to the Napoleonic Wars and the second carries the subject to the general election of 1918. Concludes that the attempts to maintain a distinct workingmen's party had no chance of success. A bibliography is appended.

RENANDEL, P. *The socialist and labour movement in France.* Contemp. Rev., Sept., 1920. Pp. 8.

ROWLAND-ENTWISTLE, A. *Scope, purpose and effects of the Whitley plan in England.* Indus. Manag., July, 1920. Pp. 3.

SHARP, F. C. *The problem of a fair wage.* Intern. Journ. Ethics, July, 1920. Pp. 22. Concludes that wages of men should be based on the needs of the average family and should depart from equality only to the extent necessary to secure each particular kind of service in the requisite amount.

SHAW, S. A. *Steel-making: what the interchurch world report says of it.* Survey, Aug. 2, 1920. Pp. 5.

SPARGO, J. *The status of trade unions in soviet Russia.* Weekly Rev., Sept. 1-8, 1920. Pp. 5.

SQUIRES, B. M. *Peace alongshore: how the longshoremen settle differences with employers.* Survey, Aug. 2, 1920. Pp. 7. Includes a brief account of recent strikes.

WEBB, S. *British labor in conference.* New Repub., Aug. 11, 1920. Pp. 3. The annual conference of the Labour party.

WHITNEY, E. L. *Cost of strikes.* Mo. Lab. Rev., Sept., 1920. Pp. 8.

WINSHIP, C. N. *Sharing losses as well as profits.* Factory, June 15, 1920. Pp. 4. Description, by the proprietor, of the plan installed by Winship, Boit and Company in January, 1920.

Adjustment of labor disputes in the garment industries in Cleveland. Mo. Lab. Rev., July, 1920. Pp. 4.

Adjustment of labor disputes in packing house industries. Mo. Lab. Rev., July, 1920. Pp. 5.

Annual convention of the American Federation of Labour. Lab. Gaz. (Canada), July, 1920. Pp. 13. Synopsis of the proceedings.

Boycott of Hungary by international organized labor. Mo. Lab. Rev., Sept., 1920. Pp. 5.

The British labor delegation to Russia. Nation, Sept. 25, 1920. Pp. 8. The text of the report, except for some omissions, includes a brief statement of the position of trade unions and the functions performed by them under the present régime.

Development of the labor situation in Australia. Mo. Lab. Rev., July, 1920. Pp. 8.

Industrial stability. Ann Am. Acad., July, 1920. Pp. 171. A collection of papers grouped under the following general topics: the trend toward industrial democracy; labor representation in industrial management; collective bargaining; securing production; industrial stability

The interchurch report on the steel strike. Weekly Rev., Aug. 11, 1920. Pp. 2. Holds that the findings reflect bias against the employers.

Minimum wage legislation in Canada: a comparison of the various provincial laws on the subject. Lab. Gaz. (Canada), Sept., 1920. Pp. 4.

Payment of wages for holidays. Lab. Gaz. (London), Aug., 1920. Pp. 2. The practice of paying workers during vacations has been greatly extended recently in the United Kingdom. A list of joint agreements containing such a provision is given.

Tendency toward a shorter work week. Mo. Lab. Rev., July, 1920. Pp. 4.

Money, Prices, Credit, and Banking

(Abstracts by C. A. Phillips)

Anderson, B. M., Jr. *The banks and the capital market.* Annalist, Oct. 11, 1920. Pp. 2. An analysis of the present bank credit situation.

Anderson, B. M., Jr. *The fallacy of "the stabilized dollar."* Econ. World, Aug. 7, 1920. Pp. 2. The restoration of the gold standard in Europe is prerequisite to the success of any plan for stabilizing the dollar.

Ansiaux, M. *The Belgian exchange since the war.* Econ. Journ., June, 1920. Pp. 12. An account of events leading up to the establishment of rigid government regulation of foreign exchange rates.

Arbuthnot, C. C. *A "stabilized dollar" would produce violent changes in periods of falling prices.* Am. Econ. Rev., Dec., 1920. Pp. 8.

Basu, P. *The problem of Indian exchange and currency.* Journ. Indian Econ. Soc., Mar., 1920. Pp. 12. Urges that gold be secured in New York against which to draw reverse councils.

Chancellor, W. E. *Sees danger in our forty per cent gold cover dollars.* Annalist, Aug. 9, 1920. Pp. 2. Recommends credit contraction and the restoration of gold to circulation.

Gephart, W. F. *The relation of insurance to banking and commercial credit.* Econ. World, Sept. 18, 1920. Pp. 4. The numerous ways in which the various forms of insurance contribute to the credit worth of the insured.

HAYFORD, F. L. *The banking situation.* DuPont Mag., May, 1920. Pp. 2. An interesting review with charts of the banking situation in the United States, 1915 to date.

HELANDER, S. *Riksbankens rediskontering.* Ek. Tids., Dec. Supp., 1919. Pp. 14. Rediscounting in the Swedish National Bank.

HORNE, E. A. *Report of the committee on Indian exchange and currency, 1919.* Journ. Indian Econ. Soc., Mar., 1920. Pp. 5. An analysis with qualified approval.

KING, W. I. *Circulating credit: its nature and relation to the public welfare.* Am. Econ. Rev., Dec., 1920. Pp. 18.

KING, W. I. *The precious metal basis underlying our currency.* Interlocking Chart Series no. 2, Weekly Service, vol. II, no. 12, July 6, 1920. A clear statement of the relation of credit to the precious metals, and of the difficulties underlying a system of fiat money.

LAWSON, W. R. *The vagaries of gold in war time.* Bankers' Mag. (London), Sept., 1920. Pp. 10. Attention is directed mainly to proposals and efforts to stimulate gold production.

MADON, B. F. *Reverse council bills.* Journ. Indian Econ. Soc., Mar., 1920. Pp. 10. Opposes the sale of reverse councils.

MOURRE, C. *La vie chère et le change.* Réf. Soc., July-Aug., 1920. Pp. 12 Inflation, speculation, and the trade balance as responsible factors.

O. C. L. *The silver situation.* Comm. Mo, Aug., 1920. Pp. 14. The present and future position of silver and the silver market.

OESTERGREN, A. *Den sekundara jordbruksfastighetskrediten samt landbygdens penningsomsättning.* Ek. Tids., May-June, 1920. Pp. 41. Discusses various phases of rural credits with special reference to Swedish conditions.

OHLIN, B. *Kuantitetsteorien i den svenska litteraturen.* Ek. Tids., Dec. Supp., 1918. Pp. 48. A historical sketch of the quantity theory of money as it has appeared in Swedish economic literature.

RIST, C. and MAWAS, A. *Hausse des prix, change et signes monetaires en France, Angleterre, Italie, Suisse, Etats-Unis, Japon, Canada.* Rev. d'Econ. Pol., May-June, 1920. Pp. 2.

ROULLEAU, M. G. *Chronique des banques et des questions monetaires.* Journ. de la Soc. de Statistique de Paris, May, 1920. Pp. 10. Mainly statistical.

TITUS, A. H. *Federal foreign banking.* Journ. Am. Bankers' Ass'n, Aug., 1920. Pp. 2. The work of an Edge law bank.

VINELL, T. *Affärsbankernas rentabilitat vid fallande penningvärde.* Ek. Tids., Jan., 1920. Pp. 14. A study of the earning power of money of commercial banks during periods of decline in the purchasing power of money.

WHITE, B. *Neutral war emergency money.* The Bankers' Mag., July, 1920. Pp. 7. A descriptive account.

WICKSELL, K. *Riksbanken och privatbankerna.* Ek. Tids., Dec. Supp., 1919. Pp. 12. A discussion of the Swedish National Bank and the private banks. Proposes reforms in the Swedish system of finance and credit.

WILDMAN, M. S. *Certified financial statements as a basis for credit.* Journ. Account., Sept., 1920. A certified statement carries validation of all its items.

WILLIS, H. P. *Acceptances as a neglected element in inflation.* Econ. World, July 24, 1920.

WOODMAN, L. D. *Industrial savings banking.* Journ. Am. Bankers' Assoc., Sept., 1920. Pp. 6. A critical examination of various methods of industrial savings systems.

X. *La monnaie dans la nouvelle République Autrichienne.* Rev. d'Econ. Pol., July-Aug., 1920. Pp. 4. Despite radical changes there has been no legal modification of the monetary régime existing before the war.

ZOTTER, G. *La valuta alemana como sintoma de una situación.* Rev. Nac. de Econ., Feb., 1920. Pp. 24.

Democracy in banking. Nation, Sept., 18, 1920. P. 1. Coöperative banking is recommended as a means of curbing an alleged banking monopoly.

First steps taken to restore sound money in England. Annalist, Aug. 23, 1920. Pp. 2. A survey of monetary and banking conditions in Great Britain, January-June, 1920.

Progress of banking in Great Britain and Ireland during 1919. Bankers' Mag. (London), July. 1920. Pp. 11. Statistical analysis of banking liabilities and resources of United Kingdom, 1919.

Progress of banking in Great Britain and Ireland during 1919. Bankers' Mag. (London), Aug., 1920. Pp. 18. The increase in reserve funds was not so large as that of the preceding year.

Report of the twenty-eighth annual meeting of the United States League of Local Building and Loan Associations. Am. Bldg. Assoc. News, Aug., 1920. Pp. 27.

Warehouse receipts as a basis for cotton loans. Comm. Mo., Sept., 1920. Pp. 5. Qualities of warehouse receipts requisite to ideal service as collateral for cotton loans.

Public Finance, Taxation, and Tariff

(Abstracts by Charles P. Huse)

ADAMS, T. S. *Why the excess profits tax should be repealed.* Econ. Wld., July 31, 1920. Pp. 2. Results in great inequalities of sacrifice as between corporations and as between incorporated and unincorporated businesses.

AUSTIN, O. P. *Astounding growth has taken place in national debts of the world.* Americas, June, 1920. Pp. 5. Traces the growth from early times with detailed figures for the various countries since 1914.

Birck, L. V. *Cisen og Konsumptionen.* Nat. ök Tids., Jan., 1920. Pp. 26. A study of excise taxes in Denmark from the thirteenth century and on.

Black, C. C. *Some aspects of eugenics and the income tax.* Eugenics Rev., July, 1920. Pp. 10. Tells of the reforms accomplished and to be accomplished by the Eugenics Education Society.

Brown, H. G. *Some frequently neglected factors in the incidence of taxation.* Journ. Pol. Econ., June, 1920. Pp. 6. Discusses taxes on commodities.

Chambers, J. S. *The grave dangers involved in the proposed "single tax" amendment to the constitution of California.* Econ. World, Sept. 4, 1920. Pp. 2. To be submitted to the voters for the fifth time.

Douglas, P. H. *A system of federal grants-in-aid.* I. Pol. Sci. Quart., June, 1920. Pp. 17. Traces the development of a new federal policy in this field.

Estey, J. A. *Indiana tax reforms.* Nat. Munic. Rev., July, 1920. Pp. 3. Increased power given to state tax commission.

Fairchild, F. R. *Suggestions for revision of the federal taxation of income and profits.* Am. Econ. Rev., Dec., 1920. Pp. 14.

Gerstenberg, C. W. *The importance of unification of inheritance tax laws.* Bull. Nat. Tax Assoc., June, 1920. Pp. 5. Considers the problem particularly from the standpoint of the investor.

Jeze, G. *L'impôt extraordinaire sur le patrimoine en Italie.* Rev. Sci. Législ. Finan., Apr.-May-June, 1920. Pp. 71. Italy has adopted a progressive tax on property, payable in annual instalments, as a means of relieving her grave financial situation.

Herkscher, E. F. *Protektionismens härstemning.* Ek. Tids., Feb., 1920. Pp. 41. A historical sketch of the origin of protective tariff.

Knoop, D. *The royal commission on the income tax.* Econ. Journ., June, 1920. Pp. 12. Nearly all of its recommendations have already been accepted by the government.

von Koch. *Om Frihandels-och tullskyddsteorier.* Ek. Tids., Dec. Supp., 1919. Pp. 26. A discussion of free trade and tariff theories.

Kofoed, O. B. *Inkomst og Formueskatteloven.* Nat. ök. Tids., Jan., 1920. Pp. 16. An analysis of the Danish income tax law of October, 1919, a comparison with earlier laws.

McGinnis, W. *Inconsistencies of law and construction in connection with inheritance taxes in the United States.* Econ. World, Sept. 11, 1920. Pp. 3. Traces briefly the history of the tax and gives examples of inconsistencies in its working.

McGrath, T. O. *Protection of mines against unjust taxation.* Bull. Nat. Assoc., June, 1920. Pp. 6. Makes definite suggestions for reform.

McKenna, R. *The taxable capacity of the British nation.* Econ. World, July 24, 1920. Pp. 8. Believes the present budget overtaxes the British people.

MILLER, W. K. *The federal tax laws in their relation to life insurance.* Econ. World, Aug. 7, 1920. Pp. 4. A good summary.

PIGOU, A. C. *Coöperative societies and income tax.* Econ. Journ., June, 1920. Pp. 7. A discussion by a dissenting member of the British royal commission.

PIGOU, A. C. *The report of the royal commission on the British income tax.* Quart. Journ. Econ., Aug., 1920. Pp. 19. Discusses certain conclusions of the commission.

POWELL, T. R. *The President's veto of the budget bill.* Nat. Munic. Rev., Sept., 1920. Pp. 8. Does not share the President's opinion that the method of removal of the proposed comptroller-general would be unconstitutional.

POWELL, E. T. *The effect of taxation on securities.* Finan. Rev. Rev., Sept., 1920. Pp. 15. Present British taxation is likely to discourage thrift.

ROSA, L. B. *The economic importance of the scientific work of the government.* Sci. Mo., July, 1920. Pp. 22. In spite of its importance, the federal government spent in 1920 only one per cent of its total budget for such work.

ROTHSCHILD, M. D. *Gross turnover tax as a substitute for existing laws.* Annalist, July 5, 1920. Pp. 2. Favored by the National Business Men's Committee.

TYNDALL, J. J. *Life insurance and inheritance taxes.* Econ. World., July 10, 1920. Pp. 2. Explains how life insurance may best be used to meet inheritance taxes.

VEASEY, W. D. *Timber taxation.* Bull. Nat. Tax Assoc., June, 1920. Pp. 4. Gives reasons for leniency in the assessment of young growth.

ZUKERMAN, T. D. *Are stock dividends incomes?* Journ. Pol. Econ., July, 1920. Pp. 10. Believes the Supreme Court will eventually reverse its decision.

Les finances de guerre de l'Angleterre. Rev. Sci. Légis. Finan., Apr.-May-June, 1920. Pp. 25. Outlines the courageous policy with which England has attacked the war debt.

Les finances de guerre de l'Angleterre. Rev. Sci. Légis. Finan., Apr.-May-June, 1920. Pp. 12. The text of an address by M. François-Marsal, minister of finance, emphasizing the need of adopting certain fiscal policies.

Preferential tariffs and India. Wealth of India, Mar., 1920. Pp. 12. An inquiry by the Indian government into the working of the Indian tariff and the effects of giving preferential treatment to members of the British Empire.

La reconstitution financière et économique du monde. Rev. Sci. Légis. Finan., Apr.-May-June, 1920. Pp. 17. Contains the international address of the economists to the different governments, outlining a plan for reconstruction.

Population and Migration

(Abstracts by A. B. Wolfe)

Bonnier, L. *La population de Paris en mouvement (1800-1961).* La Vie Urbaine, June, 1919. Pp. 30, plus 39 full page half-tone maps. Detailed historico-statistical exposition of the population growth of Paris. The charts show geographical expansion and increase of density from 1800 to 1911; a map forecasting the geographical expansion and distribution of the population in 1961 is appended.

Doucet, R. *Le dépeuplement des régions montagneuses.* Le Monde Econ., June 19, 1920. Pp. 2. A note on the decline of population of certain mountain departments in France. The cause is attributed to the growth of industry and decline of agriculture.

East, E. M. *Population.* Sci. Mo., June, 1920. Pp. 22. Address of the President of the American Society of Naturalists. Points out dangers involved in present rapid increase of population; raises questions as to the future quality of the American population. A suggestive article.

Gibbon, J. M. *The foreign born.* Queen's Quart., June, 1920. Pp. 20. Sympathetic discussion of the character of the various immigrant nationalities in Canada, with reference to assimilation and contribution to Canadian culture.

Keith, A. *Galton's place among anthropologists.* Eugenics Rev., Apr., 1920. Pp. 15. Holds that Galton introduced a new era in anthropology by his statistical researches.

Kohler, M. J. *Los Judios en Cuba.* Rev. Bimestre Cubana, July-Aug., 1920. Pp. 5. A sketch devoted chiefly to the fate of early Jewish colonists under the Inquisition.

Kulz, L. *Ueber das Aussterben der Naturvölker.* II. *Das Aussterbe-Mechanisus bei den Karolinern der Insel Jap.* Archiv für Frauenkunde, Apr., 1920. Pp. 41. Interesting study of a question originally raised by John Rae and Robert Louis Stevenson.

Natesan, Mrs. V. *The population problem in India.* Indian Rev., July, 1920. Pp. 2. No serious cause for alarm at increase of the Indian population, provided the Indian rayot makes himself more efficient.

Thompson, W. S. *Race suicide in the United States.* Birth Control Rev., Aug.-Sept.-Oct., 1920. Pp. 6. Reprinted from the *Scientific Monthly.* To be continued.

Turnor, C. *The organization of migration and settlement within the Empire.* United Empire, May, 1920. Pp. 7. Sets forth economic and other reasons why organization should be perfected to see that all who leave the United Kingdom settle within the Empire. "We cannot afford to lose citizens."

Insurance and Pensions

(Abstracts by Henry J. Harris)

Commons, J. R. *A reconstruction health program.* Bull. Univ. Wis., June, 1920. Pp. 18. A comprehensive program includes cure and coöperation

in prevention of sickness; it includes health insurance. It means increased taxation on unprevented sickness with ultimately reduced taxation on property.

FISHER, W. C. *Experience with workmen's compensation.* Am. Econ. Rev., Mar., 1920. Pp. 30.

FITZGERALD, J. A. *Reciprocal or inter-insurance against loss by fire.* Am. Econ. Rev., Mar., 1920. Pp. 12.

GIBB, J. B. *A method of valuing bonds of a life insurance company.* Trans. Act. Soc., May, 1920. Pp. 10. Formula based on amortized values.

HALSEY, O. S. *Physicians and health insurance.* Survey, Sept. 15, 1920. P. 1. American bills provide for referees to decide capacity for work; British system inadequate in this respect.

HARRISON, F. H. *The actual operation of workmen's compensation insurance.* Econ. World, Sept., 1920. Pp. 3. Rate making best done by voluntary bureaus with state supervision.

HEARN, W. F. W. *The various forms of protection afforded by consequential loss, or profits, policies.* Econ. World, Aug. 28, 1920. Pp. 3. Describes policies covering increased cost of working, loss of agents' commissions, loss of output, gold mines, docks, etc., sugar and wood pulp, rubber, etc.

HENNE, H. *Brände und Explosionen und ihre Lehren Mitteilungen aus der Praxis der Feuerversicherung.* Zeitschr. f. d. ges. Versicherungswis., July, 1920. Pp. 11. Description of explosions in various establishments.

HOFFMAN, F. L. *The pharmaceutical aspects of national health insurance.* Med. Rec., Sept. 23, 1920. Pp. 6. Drug practice under the act emphasizes economy in drugs at expense of patients' welfare.

HUNTER, A. *Mortality among American annuitants and premiums based thereon.* Trans. Act. Soc., May, 1920. Pp. 20. Investigation of experience of twenty American companies, which have issued 95 per cent of the annuities up to and including 1917. Tables, formulae, etc.

HUNTER, A. and ROGERS, O. H. *Influence of occupation upon mortality.* Trans. Act. Soc., May, 1920. Pp. 33. Methods and experience of the New York Life Insurance Company in rating the occupational mortality of leading occupations.

MACLEAN, A. F. *Comparative rates of withdrawal.* Trans. Act. Soc., May, 1920. Pp. 18. Rates of withdrawal on various forms of policy, by habitat, etc.

MACLEAN, J. B. *Notes on problems of small pension funds.* Trans. Act. Soc., May, 1920. Pp. 8. Methods used in actual instances in planning small pension funds.

PARKINSON, T. I. *Longshoremen's compensation upset by Supreme Court.* Am. Lab. Legis. Rev., June, 1920. Pp. 4. Criticises adversely the decision of the Supreme Court in *Knickerbocker Ice Co.* v. *Stewart* that Congress may not authorize state legislatures to make their compensation laws applicable to injuries within the maritime jurisdiction.

PATZIG, A. *Langfristige und kurzfristige Lebensversicherungen.* Zeitschr. f. d. ges. Versicherungswis., July, 1920. Pp. 16. Insurance covering long periods should be the main form, short terms the exception.

POTTHOFF, H. *Geistige Arbeiter und soziale Versicherung.* Zeitschr. f. d. ges. Versicherungswis., July, 1920. Pp. 14. Application of the sickness, accident, invalidity laws to independent mental workers will have to follow the form provided for the home working industries (outworkers).

RECKZEH, P. *Die praktische Bedeutung der Wurmkrankheit für die staatliche und private Versicherung.* Zeitschr. f. d. ges. Versicherungswis., July, 1920. Pp. 17. History, extent, and treatment of the different varieties of hookworm disease.

SHIENTAG, B. S. *Uninsurance and the compensation law.* Survey, Sept. 15, 1920. Pp. 2. Over 20,000 New York employers fail to carry the insurance required. Gives results of campaign to require compliance with law.

THORSEN, C. *Forsikringsforetagender i Flensborg og Altona: det 18. aarh.* Nat. ök. Tids., Jan., 1920. Pp. 25. A study of attempts made in the latter part of the eighteenth century to break the monopoly of the Royal Marine Insurance Company in Denmark.

WELCH, A. A. *Preliminary term valuation.* Trans. Act. Soc., May, 1920. Pp. 9. The preliminary term plan of valuation, modified so that no net premium allowance for acquisition expenses should be given in excess of that under the ordinary life policy, with an expense allowance for new business fully equal to that described in the present New York law.

Periodic medical examination of members of German sick funds. Mo. Lab. Rev., July, 1920. Pp. 2. Plan used in Essen at Krupp works for the members of establishment fund.

The unemployment insurance act, 1920. Lab. Gaz. (London), Aug., 1920. P. 1. In force Nov. 8, 1920. Includes practically all persons covered by health insurance, except agriculture and domestic service. Dues are men 8d. (4d. each from insured and employer). Benefit for men is 15s. per week, maximum period of benefit being 15 weeks annually. Waiting period is 3 days and dues must have been paid 3 months. About 12,000,000 persons included.

Workmen's compensation legislation in Canada. Econ. World, Sept. 11, 1920. Pp. 4. Provisions summarized under captions such as industrial diseases, waiting period, benefits, etc.

Socialism

BLUM, O. *Max Adlers Neugestaltung des Marxismus.* Archiv f. d. Geschichte d. Sozial., VIII, 2-3, 1919.

BORTKIEWICZ, L. *Zu den Grundrententheorien von Rodbertus und Marx.* Archiv f. d. Geschichte d. Sozial., VIII, 2-3, 1919.

KAUTSKY, K. *Drei kleine Schriften über Marx.* Archiv f. d. Geschichte d. Sozial., VIII, 2-3, 1919.

Koppe, H. *Schriften über den Kriegssozialismus.* Archiv f. d. Geschichte d. Sozial., VIII, 2-3, 1919.

Laskine, E. *Le problème des nationalisations et le "guild socialism" en Angleterre.* Rev. d'Econ. Pol., July-Aug., 1920.

Le Normand, P. *La "socialization" des mines en Allemagne.* Rev. d'Econ. Pol., Jan.-Feb., 1920.

Mautner, W. *Bolshevismus und Marxismus.* Schmollers Jahrb., Jahrg. 44, Heft 2, 1920.

Schumacher, H. *Gegenwartsfragen des Sozialismus.* Schmollers Jahrb., Jahrg. 44, Heft 2, 1920.

Vidou, J. M. *Le socialisme au Japon.* L'Europe Nouvelle, Dec. 27, 1919. P. 2.

Statistics

(Abstracts by Horace Secrist)

Bennet, T. L. *The theory of measurement of changes in cost of living.* Journ. Royal Stat. Soc., May, 1920. Pp. 8. "The investigation was made in connection with an enquiry into cost of living now being made by the Egyptian government, with the primary object of regulating the war gratuities of its lowest grade employees." A method is suggested by which a change of expenditure can be analyzed into two parts, one corresponding to changes in cost of living and the other to changes in standard of living.

Berridge, W. A. *The world's gold supply.* Rev. Econ. Stat., July, 1920. Pp. 19.

Beveridge, W. H. *British exports and the barometer.* II. Econ. Journ., June, 1920. Pp. 5. Supports the hypothesis of "a periodic crisis in the climatic conditions of the earth as a whole which, at intervals averaging about 15 1/3 years, lowers the general productivity of harvests during one or more seasons."

Birkett, M. S. *The iron and steel trades during the war.* Journ. Royal Stat. Soc., May, 1920. Pp. 41. Details are supplied on exports, manufactures, prices, and control of steel for the United Kingdom, France, and the United States.

de Black, B. *Statistique concernant les trafics des réseaux africains: leur possibilities d'avenir.* Journ. de la Soc. de Stat. de Paris, May, 1920. Pp. 12.

Blair, T. A. *The mathematician, the farmer, and the weather.* Sci. Mo., Oct., 1920. Pp. 8. A general statement of the laws in which statistical methods are being applied to the study of crops and weather hazards.

Bowley, A. L. *Cost of living and wage determination.* Econ. Journ., Mar., 1920. Pp. 4.

Braemer, K. *Gedanken über die Würdigung der Statistik.* Deutsches Statistisches Zentralblatt, Sept.-Oct., 1919. Pp. 138. Nov.-Dec., 1919. Pp. 154.

Brissenden, P. F. *The measurement of labor mobility.* Journ. Pol. Econ., June, 1920. Pp. 36. An important contribution to the literature on labor mobility. Insists that the statistical unit of "labor turnover" must either be more narrowly defined or abandoned entirely.

Brissenden, P. F. and Frankel, E. *Mobility in labor in American industry.* Mo. Lab. Rev., June, 1920. Pp. 21. An important survey. Makes use of the accession rate, the separation rate, and the replacement or "turnover" rate; helps to clarify the much befogged and abused notion of "labor turnover."

Chaney, L. W. *Influence of war on accident rates in the iron and steel industry, 1914-1919.* Mo. Lab. Rev., June, 1920. Pp. 13. Continues the author's contribution to this subject. Even in most strenuous times, it is possible to check rising accident rates by the application of: (1) adequate instruction of the men in skilful methods of work; (2) careful supervision of the well-instructed men; (3) "engineering revision," by which the safety of work places is increased.

Collins, H. E. *Power costs during years 1914 to 1919.* Indus. Manag., June, 1920. Pp. 7. A summary of the records of fourteen representative plants, giving in detail the changes in power cost during the years of the war.

Conyngton, M. *The government's wage policy during the last quarter century.* Mo. Lab. Rev., June, 1920. Pp. 17. As shown by its pronouncements during the war, the government recognizes the advantage of establishing liberal scales of compensation for work of standard quality and the necessity for frequent revisions of the wage or salary scale in order that a duel relation may be maintained between cost of living and earnings; but in practice it has been oblivious to both considerations.

Coyle, E. S. *The world's industrial consumption of gold.* Rev. Econ. Stat., June, 1920. Pp. 8. A review of former studies of the world's industrial consumption of gold, together with an analysis of consumption by countries during recent years.

Cummings, J. *The conception of statistics as a technique.* Quart. Pubs. Am. Stat. Assoc., June, 1920. Pp. 18. A scholarly attempt to define statistics as a technique, and to separate it from other sciences to which it is too often regarded simply as a tool.

Davis, J. S. *World banking and currency: a review of recent developments.* Rev. Econ. Stat., Aug., 1920. Pp. 26. A comprehensive analysis.

Day, E. E. *An index of the physical volume of production.* Rev. Econ. Stat, Sept., 1920. Pp. 14. A statement of the need of an index of physical volume together with a description of the method of calculating two types of series—an unadjusted and an adjusted series. Contains both tabular and graphic analysis.

Faure, F. *Les cadres de la statistique du coût de la guerre.* Journ. de la Soc. de Stat. de Paris, July-Aug.-Sept., 1920. Pp. 4. A statement of the meaning of the expression "cost of the war of 1914-1918," and of the preliminaries to its actual measurement.

FOWLER, E. J. *Value of statistics in central-station operations.* Nat. Elec. Light Assoc. Bull., Mar., 1920. Pp. 4. Suggested uses of the value of statistical methods in business fields. Paper presented before the Illinois State Electric Association, October, 1919.

FRANCISCO, D. *Coöperative advertising.* Am. Exporter, Sept., 1920. Pp. 6. Contains tabular and graphic analyses of shipments, selling expense, and sales, in the citrus fruit industry of California.

GEPHART, W F. *Bank wages and factors determining them.* Bankers' Mag., July, 1920. Pp. 6. Gives table showing comparative bank salaries.

GOLDENWEISER, E. A. *Incomes of bituminous coal producers.* Quart. Pubs. Am. Stat. Assoc., June, 1920. Pp. 7. A criticism of some of the data contained in the recent report of the Bituminous Coal Commission.

GRABILL, C. A. *Inefficiency and poor food of Mexican miners.* Engg. & Mining Journ., Feb. 14, 1920. Pp. 4. A statistical study of malnutrition of Mexican miners and a comparison of the peon's ration with that found to be necessary by army tests.

GUILD, J. B. *Variations in the number of live stock and in the production of meat in the United Kingdom during the war.* Journ. Royal Stat. Soc., July, 1920. Pp. 35.

HANEY, L. H. *Cost of production statistics.* Quart. Pubs. Am. Stat. Assoc., June, 1920. Pp. 13. A discussion of cost-of-production statistics in terms of their importance, essentials of a statistical concept of cost, and of the practical questions involved in the collection, compilation and presentation of cost data. The individual is contrasted with the social aspects of costs.

HAYFORD, F. L. *The business situation.* DuPont Mag., Apr., 1920. Pp. 5, charts. The significance of certain fundamental economic statistics, 1913 to date.

HERSCH, L. *L'inégalité devant la mort, d'après les statistiques de la ville de Paris.* Rev. d'Econ. Pol., May-June, 1920. Pp. 30. A comprehensive study of mortality, based upon deaths in Paris, amply illustrated by tables and graphic figures.

KNIBBS, G. H. *The analysis of a census.* Quart. Pubs. Am. Stat. Assoc., June, 1920. Pp. 11. A plea for a comprehensive analysis of census data, and a statement of the place which such an analysis might have in shaping national destiny.

KNIBBS, G. H. *The organization of imperial statistics.* Journ. Royal Stat. Soc., Mar., 1920. Pp. 14. An emphatic statement of the reasons for the organization of an Imperial Statistical Bureau.

LANGLEY, S. S. *Graphic representation of oil-well decline.* Engg. & Mining Journ., Aug. 7, 1920. Pp. 3. Emphasizes the utility of curves and graphs in recording variations in production of individual wells and of oil fields.

LEWIS, J. O. and CUTLER, W. W. *The petroleum industry: a numerical expression for production-decline curves of oil wells.* Engg. & Mining Journ.,

Sept. 4, 1920. Pp. 2. A manner of presenting oil well data in graphical form which is simplified by means of certain formulae that show declining or future estimates of production for wells, tracts, or fields for certain periods.

MAYLANDER, A. *Wages in Germany during the war.* Mo. Lab. Rev., July, 1920. Pp. 13.

MEEKER, R. and KITTREDGE, D. D. *Analysis of some effects of increased cost of living on family budgets.* Mo. Lab. Rev., July, 1920. Pp. 10.

MINETOLA, S. *Saggio di una teoria statistica sulla frequenza delle malattie.* Giorn. d. Econ., Apr., 1920. Pp. 18.

MOORE, H. L. *Crop-cycles in the United Kingdom and in France.* Journ. Royal Stat. Soc., May, 1920. Pp. 10. Continues an earlier study. Concludes "that the yield of the leading cereal crops in France runs in cycles which are synchronous with those of the United Kingdom and the United States."

MOORE, H. L. *Forecasting the crops of the Dakotas.* Pol. Sci. Quart., June, 1920. Pp. 32. A continuation of studies of crop forecasts on the basis of rainfall and other weather data.

MOURRE, LE B. C. *Statistique des facteurs qui ont modifié le taux de l'intérêt de 1869 à 1914.* Journ. de la Soc. de Paris, July-Aug.-Sept., 1920. Pp. 19. A definition of interest, explanation of factors which have influenced the rate of interest, and an examination by types and periods from 1869 to 1914.

OTTOLENGHI, C. *Index-numbers of wholesale prices in Italy during the Great War.* Part II. *Construction of a system of index-numbers of wholesale prices in Italy.* Journ. Royal Stat. Soc., July, 1920. Pp. 10. "(a) Selection of the commodities. (b) Calculation of the weights of the selected commodities. (c) Notes on the table of the index-numbers of the single commodities and the table of the weighted index-numbers of the prices of the several groups and of the general index-numbers. (d) Statistical observations on the variations in wholesale prices in Italy during the War."

OTTOLENGHI, C. *The variations of wholesale prices in Italy during the Great War.* Journ. Royal Stat. Soc., May, 1920. Pp. 15. "The aim of the present study is to calculate the variations in the wholesale prices of commodities which took place in Italy during the war, and to point out their main features." Attention is given to "(a) Criteria for the selection of commodities whose price variations, taken in the mass, shall express those of the bulk of the commodities entering into trade. (b) Determination of the weights to be given to the prices of the individual commodities selected. (c) The calculation of the weighted index-number, special and general."

PRONIER, H. *Le nombre indice du coût de la vie et l'enquête de l'union suisse des sociétés de consommation.* Rev. d'Econ. Pol., May-June, 1920. Pp. 34. Treats the subject historically and according to the method of constructing index numbers.

ROBINSON, L. N. *The improvement of criminal statistics in the United States.*

Quart. Pubs. Am. Stat. Assoc., June, 1920. Pp. 7. Historical account together with a comparison and criticism of criminal records now currently kept.

ROORBACH, G. B. *Some recent tendencies in the development of the foreign trade of the United States.* Rev. Econ. Stat., May, 1920. Pp. 18. Pictures American foreign trade during the fifteen-year period preceding the war and points out to what degree trade departed from its normal development during the period of war and has been reverting to pre-war conditions or expanding along new lines since the armistice.

RORTY, M. C. *Suggestions as to the laws of capital return under conditions of free competition.* Quart. Pubs. Am. Stat. Assoc., June, 1920. Pp. 3. A study of actual rates of return on capital invested in productive and distributive enterprises, and the development of certain "laws" by which they seem to be governed. The distribution of returns is shown graphically.

SHIRRAS, G. F. *Some effects of the war on gold and silver.* Journ. Royal Stat. Soc., July, 1920. Pp. 45. A collection and interpretation of the leading facts relating to the moneys of the world in general and of India in particular, for the most part since 1914.

SIEVERS, E. G. *Official natural gas data.* Gas Age, June 25, 1920. Pp. 6. Data collected by the United States Geological Survey.

STARLING, E. H. *The food supply of Germany during the war.* Journ. Royal Stat. Soc., Mar., 1920. Pp. 21 Treated from the physiological standpoint. Concludes: "Many years with plentiful supplies of food must elapse before the previous conditions of nourishment and health can be restored, and this recovery will be rendered difficult by the diminished fertility of the soil and the impossibility, for a long time to come, of raising again the industrial productivity to the height necessary in order that the requisite supplies can be obtained by purchase from foreign countries."

STEVENSON, T. H. C. *The fertility of various social classes in England and Wales from the middle of the nineteenth century to 1919.* Journ. Royal Stat. Soc., May, 1920. Pp. 32. Based on the census of 1911, relating to the duration of marriages, and number of children born in England and Wales since 1876. Details are shown by social class, occupation, birthplace, and residence.

TURIN, S. P. *Market prices and controlled prices of food in Moscow.* Journ. Royal Stat. Soc., May, 1920. Pp. 2.

VON TYSKA, C. *Die wirtschaftliche Bedeutung der Handelsstatistik.* Weltwirts. Archiv, Oct. 1, 1919.

WELLS, W. S. *Visualizing employment records.* Indus. Manag., July, 1920. Pp. 4. Contains some interesting but unscientifically drawn charts.

WHITNEY, E. L. *Cost of strikes.* Mo. Lab. Rev., Sept., 1920. Pp. 8. Costs are analyzed by duration or man-days lost, wage lost, loss to employers and to the public.

WOLMAN, A. *The statistical method in problems of water supply quality.* Quart. Pubs. Am. Stat. Assoc., June, 1920. Pp. 5.

YOUNG, G. J. *Gold mining in California.* Engg. & Mining Journ., Feb. 14, 1920. Pp. 9. Review since 1907, with emphasis on costs of production and amount mined. Several interesting tables and charts.

Business and financial conditions following the Civil War in the United States. Rev. Econ. Stat. Supp., July, 1920. Pp. 17.

Chart showing the fluctuation in the value of the French rente during the various wars which the nation has passed through since 1800. Bankers' Mag., May, 1920. P. 1.

Comparison of methods used in constructing index numbers of wholesale prices. Mo. Lab. Rev., Sept., 1920. Pp. 6. A statement of the differences in the methods of constructing the wholesale price index series of the Bureau of Labor Statistics, The Annalist, Bradstreet's and Dun's in relation to the differences of these numbers in recent months.

Details of Forest Service report in response to Capper resolution. Am. Lumberman, July 3, 10, 1920. Pp. 4, 2. Summary, with tables and charts. Much valuable information attractively presented.

The 1920 epidemic of influenza. Stat. Bull. Metropol. Life Ins. Co., Feb., 1920. Pp. 8. A statement of the nature of the 1920 epidemic of influenza, and a comparison of the results with the epidemics of 1918 and 1919. The total influenza-pneumonia rate was well within the normal for January, 1920—being 142 per 100,000 lives as compared with 1,747 in October and December, 1918, and 125 for the seven-year period 1911 to 1917.

The future of our foreign trade. Rev. Econ. Stat., Supp., Apr., 1920. Pp. 24. An analysis of our balance of merchandise trade in 1919 and of the "invisible" items which served as an offset against our huge surplus of exports.

How many wells drilled produce oil? Engg. & Mining Journ., Feb. 14, 1920. P. 1.

Minimum quantity budget necessary to maintain a worker's family of five in health and decency. Mo. Lab. Rev., June, 1920. Pp. 18. Tentative quantity budget; the bureau's best estimate at this time.

National debts of the world in 1913, 1918, and 1919-1920. Americas, June, 1920. Pp. 5.

Potato prices depend upon many factors. Market Reporter, Oct. 2, 1920. Pp. 3. A comprehensive study. Contains both tabular and graphic analysis.

Wholesale prices of commodities in 1919. (The "Statist's" index numbers, in continuation of Mr. A. Sauerbeck's figures.) Journ. Royal Stat. Soc., July, 1920. Pp. 18. A review and an interpretation.

World has large surplus of low wools. Market Reporter, Oct. 2, 1920. Pp. 3. An analysis of the world's stock, consumption, and production of wool.

NOTES

The thirty-third annual meeting of the American Economic Association will be held in Atlantic City, New Jersey, beginning on Monday, December 27, at 3.30 and concluding Thursday, December 30 before noon, headquarters being at Haddon Hall.

The Program Committee announces that the "solid core of interest," will be theory. The following papers are among those that will be read: "The transportation act of 1920," by Frank H. Dixon; "Our foreign trade balance since the armistice," by John R. Williams; "An index number of production," by Walter W. Stewart; "The theory of production," by Leo Wolman; "A revaluation of traditional economic theory," by Carl E. Parry; "Profits and income," by Henry R. Hatfield; "Revision of federal taxation," by F. R. Fairchild; "A review of the Federal Reserve Board policy," by O. M. W. Sprague. Two sessions will be devoted to a discussion by economic and technical experts on the problems of the soft coal industry in the United States. The teaching of elementary economics will be considered in a round table discussion, also the problems of marketing and prices.

The American Statistical Association will meet at the same time and place, also the American Association of University Instructors in Accounting.

Forty essays were submitted in the contest for the Karelsen prizes offered for the two best papers on the subject, "What Can a Man Afford?" These are now in the hands of the committee on awards.

Since September 1, 1920, the following names have been added to the membership of the American Economic Association:

Baker, O. E., 617 Cedar St., Abilene, Texas.
Bennett, George L., 65 Edgar Lane, Hastings on Hudson, N. Y.
Bloch, Louis, 130 East 22d St., New York City.
Buck, Norman S., 443 Fayerweather Hall, New Haven, Conn.
Butler, William, Fisher Body Corporation, Detroit, Mich.
Coon, Shirley J., 231 South 6th St., East, Missoula, Mont.
Crennan, C. H., Continental & Commercial National Bank, Chicago, Ill.
Eddy, Harold M., New York University, New York City.
Foster, William T., 109 Sargent St., Newton, Mass.
Gamber, M. P., 219 N. Dubuque St., Iowa City, Iowa.
Hanselman, J. J., 508 S. Division St., Ann Arbor, Mich.
Hastings, Hudson B., Garden Road, Wellesley Hills, Mass.
Hauter, L. H., State College, New Mexico.
Hoskins, Frank, 620 N. Dearborn St., Chicago, Ill.

Hsu, Leonard S., Box 1050, Stanford University, Cal.
Luken, O. H., P. O. Box 2020, Ancon, Canal Zone.
Lumpkin, H. H., 116 W. Washington Ave., Madison, Wis.
Lynn, A. J., 5489 University Ave., Chicago, Ill.
Mandel, Benjamin, 298 East 4th St., New York City.
May, F. Stacy, Amherst College, Amherst, Mass.
Moore, Justin H., Irving National Bank, New York City.
Newmarker, E. L., 1154 Yale Station, New Haven, Conn.
Outhwaite, Leonard, 289 Fourth Ave., New York City.
Pow, J. C., Connie Maxwell Orphanage, Greenwood, S. C.
Smith, Augustus, Foot West 5th St., Bayonne, N. J.
Sternbergh, J. Henry, 2d & Buttonwood St., Reading, Pa.
Stevens, William J., 35 York St., Buffalo, N. Y.
Stratton, H. F., 2368 Overlook Road, Cleveland, Ohio.
Streit, Samuel F., 66 Broadway, New York City.
Taft, George C., 294 Macon St., Brooklyn, N. Y.
Taglianetti, Thomas J., 236 South St., Jamaica, N. Y.
Taylor, Carl D., 111 So. Lake Ave., Albany, N. Y.
Thorp, Willard L., 508 S. Division St., Ann Arbor, Mich.
Tong, U., P. O. Box 564, State College, Pa.
Verhunce, C. E., Washington & Jefferson Sts., Chicago, Ill.
Winter, W. J., 1816 East St., Pittsburgh, Pa.
Zimani, Savel, 289 Fourth Ave., New York City.

Amherst College is instituting classes for workers in Amherst, Holyoke, and Springfield. Among the subjects of instruction included are: economics, industrial history, politics, social psychology, and industrial physiology. The control lies in an executive committee with representatives from Amherst College and from the labor organizations in Holyoke and Springfield.

At the University of Wisconsin the department of economics in coöperation with the department of agricultural economics and various other departments has arranged a combination of courses which relate to land as an economic factor in production and distribution. The aim will be to treat from the economic point of view the main kinds of land, *e.g.*, agricultural, urban, mineral, and forest land.

New York University has established a Graduate School of Business Administration and has appointed Professor A. Wellington Taylor as dean. Two full years of work will be required of students for the degree of Master of Business Administration. In connection with this school a Bureau of Business Research has been organized under the direction of Professor Lewis H. Haney.

Northwestern University School of Commerce announces the establishment of a Graduate Division leading to the degree of Master of Business Administration.

The honorary degree of Doctor of Laws was conferred upon Professor F. W. Taussig of Harvard University at the commencement of Northwestern University, June 16, 1920.

A new building has just been opened for the Department of Applied Statistics at University College, London. This will be devoted to the work of Professor Pearson and his assistants who are engaged in the development of statistical theory and the study of genetics.

The Chamber of Commerce of the State of New York has published a *Syllabus* giving the subjects of examination for senior credential, covering, among others, commercial geography, business organization and administration, economics, accounting, money and banking, economic history of the United States, business law, international banking and foreign exchange, investments finance, insurance, railroad transportation, business methods in foreign trade, marketing methods in domestic trade, marketing methods in domestic trade. For some of these subjects bibliographical references are given.

Professor Richard T. Ely is preparing a book on *Land Economics*.

Miss Ida M. Tarbell will publish in *Industrial Management* a series of twelve papers covering the problem of women in industry.

A new series, The Social Welfare Library, published by Macmillan, begins with a book on *Community Organization*, by Joseph K. Hart. Others for early publication are *Social Work*, by Edward T. Devine; *Industry and Human Welfare*, by William L. Chenery; *Treatment of the Offender*, by Winthrop D. Lane; *The Story of Social Work in America*, by Lilian Brandt.

The Lippincott Company is publishing a book on *Agricultural Economics*, by James E. Boyle, of Columbia University.

G. Allen & Unwin have in press *History of Social Development*, from the German of Müller-Lyer's *Phasen der Kultur*, by E. C. and H. A. Lake.

The Chase National Bank of New York has begun the publication of the *Chase Economic Bulletin*. In the first number, October 5, 1920, is an article by Dr. B. M. Anderson, Jr. entitled "Three and a half billion dollar floating debt of Europe to private creditors in America."

The Bulletin of the Russell Sage Foundation Library for October, 1920, announces the early publication of *A Social Workers' Guide to*

the serial publications of representative social agencies, approximately four thousand institutions and organizations ($2.50).

The Labor Office of the Philippine Islands has begun the publication of a quarterly bulletin.

L'Anonima Libraria Italiana has been founded by scholars and publishers in Italy and will publish a bulletin, *Il Libro Italiano* which will give the titles of new Italian publications (7 Corso Palestro, Turin).

An international review of statistics has been established, *Metron,* which will appear quarterly, each number containing about 200 pages, subscription price 50 Italian lire. The purpose of *Metron* is to coordinate all literature containing statistical material. It is "addressed to those who, cultivating different soils with various implements, nevertheless are busied with statistics, so that the results of their labors may become of general utility to science." Each number will contain a bibliography, papers making original contribution to the theory or practice of statistics, a section of notes which will provide space for researches leading only to fragmentary results, and also one or more analyses of work not exclusively statistical in character but which deals with a particular branch such as demographic or anthropometric economic statistics. There will also be included an analysis of sources and of mathematical work bearing upon statistics. Articles may be submitted in Italian, French, English, or German, and should be sent to the director, Professor Corrado Gini, University of Padua, Italy, or to members of the committee: Professor A. Andreadès, of the University of Athens, Greece; Professor A. E. Bunge, Director of Argentine Statistics, Buenos Aires, Argentina; Dr. F. P. Cantelli, Actuary at the Ministero del Tesoro, Rome, Italy; Dr. L. V. Furlan, of the University of Basle, Switzerland; Dr. M. Greenwood, of the University of London, England; Dr. G. H. Knibbs, Director of Commonwealth Statistics, Melbourne, Australia; Ing. L. March, Director of French Statistics, Paris, France; Dr. A. Julin, Director of Belgian Economic Statistics, Brussels, Belgium; Professor R. Pearl, of the Johns Hopkins University, Baltimore, Maryland, U. S. A.

The first issue contains the following articles: La méthode statistique, by L. March; Ueber Funktionen von Variablen zwischen welchen Korrelationen bestehen, by E. Czuber; Sui coefficienti di variabilità, by F. Vinci; Entomological Statistics, by F. Y, Edgeworth; La coscrizione militare dal punto di vista eugenico, by C. Gini; The theory of large populations-aggregates, by G. H. Knibbs; Della misura sta-

tistica dell' abilità dei giocatori nelle corse al galoppo, by G. Zingàli; La fiscalité de guerre (discussion), by J. Bourdon; Sulle applicazioni del calcolo delle probabilità alla fisica molecolare (rassegna), by F. P. Cantelli; Ridolfo Livi (1856-1920), by C. Gini.

Appointments and Resignations

Mr. Hugh E. Agnew has been appointed associate professor of advertising at New York University.

Mr. Paul M. Atkins has resigned his position with L. V. Estes, Inc., Industrial Engineers, to organize and teach courses in industrial organization, management and accounting, in the School of Commerce and Administration at the University of Chicago.

Mr. Gladden Whetstone Baker has been appointed instructor in political economy at Yale University.

Mr. E. Clair Bancroft, formerly at the University of Maine, has accepted an instructorship in economics at Brown University.

Professor Spurgeon Bell, of the University of Texas, taught accounting both summer terms at the University of Chicago.

Mr. Orval Bennett has been appointed instructor in transportation at the University of Illinois.

Dr. Howard Beris has been engaged as an instructor in economics at the University of Cincinnati.

Mr. W. B. Bodenhafer, formerly of the University of Kansas, has been appointed associate professor of sociology at Washington University.

Professor Ernest L. Bogart has resigned his position as assistant foreign trade advisor in the Department of State, Washington, D. C., where he has been for two years, to return to the University of Illinois as head of the department of economics.

Professor Ezra Bowen, formerly associate professor in the College of Business Administration, Lehigh University, has been appointed professor and head of the department of economics.

Mr. Paul F. Brissenden, formerly with the federal Department of Labor, has been appointed assistant professor of economics at New York University.

Mr. Norman Sydney Buck has been appointed instructor in political economy at Yale University.

Mr. Henry Clay, of New College, Oxford, has been appointed acting professor of economics in Amherst College for the spring term of 1920-1921.

Professor N. H. Comish has been promoted from associate professor of economics and sociology to a full professor in the Oregon State Agricultural College. His work lies in the field of agricultural economics, including markets and marketing.

Mr. M. C. Cross, last year an assistant in economics at Ohio State University, has accepted a position as instructor in economics at Purdue University.

Professor C. H. Cunningham, of the University of Texas, is on leave of absence as economic advisor attached to the American Embassy at Madrid.

Mr. George Bartlett Curtis, recently with the Guaranty Trust Company of New York, is now assistant professor of economics at Lehigh University, Bethlehem, Pennsylvania.

Professor Harrison C. Dale, formerly professor of political science in the University of Wyoming, has been appointed professor of economics and political science in the University of Idaho. Professor Dale has been on partial leave of absence from the University of Wyoming in charge of the preparation of the first Wyoming state budget.

Mr. B. T. Davidson has been appointed instructor in business law at the University of Illinois.

Dr. Paul H. Douglas has resigned his position at the University of Washington, Seattle, to go to the School of Commerce, University of Chicago.

Associate Professor William M. Duffus has resigned from the department of economics at the University of Kansas to accept a professorship in economics at Boston University, where he will have charge of the marketing courses and will give a course in railroad transportation.

Dr. Louise Dunbar has been appointed instructor in economics at the University of Illinois.

Mr. G. W. Eckelberry has been made assistant professor of accounting at Ohio State University.

Dr. Boris Emmet announces his affiliation with Henry Sonneborn

& Company, Inc., Baltimore, Maryland, in the capacity of labor manager.

Mr. Arthur L. Faubel, of New York University, has been granted a leave of absence for one year in order to accept a fellowship in the department of economics and social institutions of Princeton University.

Assistant Professor Maxwell Ferguson has resigned his position at the University of Kansas to accept a position at the University of Pittsburgh.

Mr. J. A. Fisher, recently production manager for the American Carbon and Carbide Co., has been appointed professor of industrial management in the College of Commerce and Journalism at the Ohio State University.

Assistant Professor C. O. Fisher, of Clark College, resigned his position last February to became associate professor of economics in Wesleyan University, Middletown, Conn. During the summer he taught in the summer session at Trinity College, Durham, N. C.

Mr. J. Anderson Fitzgerald has been promoted to associate professor of business administration in the University of Texas.

Mr. Hugh M. Fletcher, formerly of Leland Stanford University, has been appointed assistant professor of economics at the University of Kansas.

Mr. Emil Frankel, until recently Special Agent of the United States Department of Labor, has accepted the position of secretary of the Baltimore Federation of Clothing Manufacturers, and at the same time is assuming the duties of Director of the Research Bureau, conducted by the Federation.

Mr. Earl S. Fullbrook, formerly instructor in economics at Iowa State University, has been appointed assistant professor of domestic and foreign commerce at the University of Nebraska.

Miss Augusta E. Galster has resigned her position as research assistant to President Kinley of the University of Illinois, and has been appointed instructor in economics in that institution.

Mr. Warner E. Gettys has resigned the position of instructor in sociology at Ohio State University to accept an assistant professorship at Tulane University.

Mr. Martin Glaeser, formerly of the Wisconsin Railroad Commission, is giving courses at the University of Wisconsin on public utili-

ties and land economics. He is acting also as expert for the joint committee of citizens and city government at Milwaukee, arranging a settlement and plan of future operation with the Milwaukee Electric Railway & Light Co.

Professor Frank Graham, recently of the economics department of Rutgers College, has been appointed to a position on the economic staff at Dartmouth College.

Dr. J. E. Hagerty, of Ohio State University, has been serving this autumn as arbitrator in a dispute between the Electric Railway Companies of Dayton, Ohio, and their employees.

Dr. M. B. Hammond, of Ohio State University, served during the early part of the summer as arbitrator in a dispute between the Stark Electric Railway Company of northeastern Ohio, and its employees. During the latter part of the summer he was employed as technical expert by the Anthracite Coal Commission.

Professor M. S. Handman, of the University of Texas, spent a part of the summer in Mexico City collecting material for a study of Mexican economic conditions.

Dr. Lewis H. Haney, formerly of the federal Department of Markets, has been appointed professor of economics and director of the Bureau of Business Research at New York University.

Miss Nina Harbour has been appointed instructor in economics in Vassar College.

Mr. L. G. Harris has resigned the position of auditor of the First National Bank of Davenport, Iowa, to accept an appointment as instructor in accounting at the University of Illinois.

Mr. H. McBean Hart has been appointed instructor in economics in New York University.

Mr. J. Anton de Hass, formerly of the University of Rotterdam, Holland, has been appointed professor of foreign trade at New York University, School of Commerce Accounts and Finance.

Dr. H. Gordon Hayes, assistant professor of economics in Yale University, has been appointed professor of economics at Ohio State University, where he has charge of the general course in economics.

Dr. F. E. Held, of Ohio University, has been promoted to the position of assistant professor in economics.

Professor R. H. Hess, of the University of Wisconsin, has a leave of absence and is engaged in a settlement of economic relations con-

nected with the American Army of Occupation, with the title of colonel, stationed at Coblenz. He was associated with the American delegates at the International Financial Conference, under the auspices of the League of Nations, held at Brussels in September.

Dr. Frederick C. Hicks, head of the department of economics and former dean of the School of Commerce at the University of Cincinnati, was recently elected president of the University.

Dr. David Himmelblau has been promoted to a full professorship of accounting in the Northwestern University School of Commerce.

Dr. H. F. Hoagland, formerly instructor in economics at the University of Illinois, and more recently Chief of Division of Statistics, New York State Public Service Commission, First District, has been appointed professor of transportation and public utilities at Ohio State University.

Mr. J. B. Hubbard, formerly instructor in economics at Princeton University, is now with the United States Tariff Commission as a special expert.

Professor Lincoln Hutchinson, on leave of absence from the University of California, has been asked to assume the position of food expert and advisor to the Czecho-Slovakian Government. Accordingly, he has joined the American Technical Mission at Prague, securing an extension of leave from the University of California until August, 1921.

Mr. Ambrose E. Impey has been appointed assistant secretary of the School of Commerce, Accounts, and Finance at New York University.

Dr. H. A. Innis has been appointed to the staff of the department of political economy of the University of Toronto.

Associate Professor John Ise, of the University of Kansas, has been promoted to a full professorship.

Professor W. T. Jackman, of the University of Toronto, chairman of a commission appointed by the government of the Province of Ontario, has been engaged in the investigation of the problem of rural credits and in devising a system which will meet the needs of the farmers of that province.

Mr. Robert M. Jameson, of the College of Business Administration of Boston University, has been promoted from his position as instructor in economics to an assistant professorship in that subject. He is

also assisting in the department of economics at Massachusetts Institute of Technology.

Mr. Eugene M. Kayden has been appointed instructor in political economy in the Yale Department of Social and Political Science.

Professor Malcolm Keir has been appointed chairman of the department of economics at Dartmouth College.

Professor Edwin W. Kemmerer, of Princeton University, is lecturing once a week to the employees and officers of the Federal Reserve Bank of Philadelphia.

Mr. H. R. Kemp, who has been doing post-graduate work at the London School of Economics, has been appointed to the staff of the department of political economy of the University of Toronto.

Mr. Philip B. Kennedy has resigned as Director of the Bureau of Foreign and Domestic Commerce to become Vice-President of the First Federal Foreign Banking Association.

Professor David Kinley, for many years head of the department of economics at the University of Illinois, was last June elected president of that institution.

Dr. William Kirk, formerly professor of economics and sociology at the University of Rochester, has joined the department of economics at the University of California.

Mr. V. L. Lanfear, of the University of Texas, has been promoted from an instructorship to an adjunct professorship.

Mr. William Leslie, formerly actuary of the Insurance Department of the State of New York, has been appointed assistant professor of insurance in the University of California.

Mr. A. C. Littleton, assistant dean of the College of Commerce and Business Administration of the University of Illinois, has been made assistant professor of business organization.

Dr. F. E. Lumley, professor in Butler College, has accepted a position as assistant professor of sociology at Ohio State University.

Mr. J. G. McKay, of the University of Wisconsin, has been promoted from the rank of instructor to that of assistant professor in economics.

Professor Marion Kelly McKay, for the past three years professor of economics in New Hampshire College, has been appointed profes-

sor of economics at the University of Pittsburgh and head of the department of economics in the School of Economics.

Professor Walter J. Matherly has resigned his position at Georgetown College to accept the position of associate professor of business administration in the School of Commerce, University of North Carolina.

Mr. F. S. May has been appointed instructor in economics and director of the "classes for workers" in Amherst College.

Mr. Eliot G. Mears, formerly secretary of the Harvard Graduate School of Business Administration, has recently returned to the United States after an absence of fifteen months as Trade Commissioner in the Near East. He was a member of the staff of the American High Commission in Turkey, and also the Harbord Mission which investigated present-day conditions in Armenia and Transcaucasia. He is now preparing an economic monograph on Greece for the United States Department of Commerce.

Mr. S. L. Miller, of the University of Wisconsin, has been promoted from the rank of instructor to that of assistant professor in economics.

Mr. Claudius T. Murchison, formerly of Hunter College, has been appointed assistant professor of economics in New York University School of Commerce, Accounts, and Finance.

Miss Mabel Newcomer, of Vassar College, has been promoted from assistant professor of economics to associate professor.

Mr. Christopher J. O'Leary, Jr., has been appointed instructor in economics at Tufts College.

Miss Gladys L. Palmer, formerly secretary and reader in the department of social economy at Bryn Mawr College, has been appointed instructor in economics in Vassar College.

Mr. F. L. Patton, formerly at New York University, has been placed in charge of the work in economics at Hamilton College with the title of associate professor.

Dr. Charles E. Persons, who was on leave from his position as associate professor at Washington University, St. Louis, during the war, was discharged from the army in January, 1920. Immediately thereafter he became professor of economics in the Boston University College of Business Administration and is this year in charge of general economics courses.

Professor Ralph L. Power, since 1914 at the Boston University College of Business Administration, has been granted leave of absence to accept an appointment at the College of William and Mary, where he will be on the staff of the economics department to carry on instruction in Williamsburg, Richmond, and Norfolk in economics and foreign trade. In addition he will organize a commercial library and museum for the college.

Professor Charles Lee Raper has resigned his position in the University of North Carolina to accept the newly created Franklin professorship of transportation in Syracuse University.

Professor H. L. Reed, formerly of New York University, has been appointed professor of finance and banking at Washington University.

Dr. Lloyd Rice has been appointed to a position on the economic staff of Dartmouth College.

Dr. James Harvey Rogers, formerly at the University of Missouri, has accepted an assistant professorship at Cornell.

Professor E. A. Ross, of the University of Wisconsin, has a leave of absence for the first semester 1920-21, and is engaged in editing documents of the American Red Cross relating to work of that organization in Russia during the war.

Mr. L. A. Rufener has resigned as special expert of the United States Tariff Commission to accept a professorship of economics at the University of West Virginia.

Professor C. O. Ruggles, formerly of Ohio State University, has resigned to accept the directorship of courses in commerce and the professorship of economics at the State University of Iowa.

Mr. C. F. Schlatter, formerly professor of commercial science at South Dakota State College, has been appointed instructor in accountancy at the University of Illinois.

Associate Professor D R Scott, of the University of Missouri, has been promoted to the rank of professor.

Mr. H. M. Scott has been appointed instructor in sociology at Ohio State University.

Dr. Walter Dill Scott, professor of applied psychology in the Northwestern University School of Commerce, has been elected to the presidency of the university.

Mr. Stewart Scrimshaw has severed his work with the Industrial Commission of Wisconsin as State Supervisor of Apprenticeship, to take up work of Industrial Relations of the Kearney & Trecker Company.

Dr. C. J. Sembower, formerly professor of English at Indiana University, and more recently engaged in advertising work in Indianapolis, has accepted a position as professor of advertising and salesmanship at Ohio State University.

Dr. Sumner H. Slichter, formerly instructor in economics at Princeton University, has been appointed assistant professor of economics at Cornell University.

Dr. Tipton R. Snavely, of the University of Virginia, has been promoted to an associate professorship in economics at that university.

Professor Archibald W. Taylor, of the New York University department of economics, has been made dean of the Graduate School of Business Administration.

Professor C. M. Thompson has been made dean of the College of Commerce and Business Administration of the University of Illinois.

Professor Arthur J. Todd, of the University of Minnesota, is giving a course in sociology in the Northwestern University School of Commerce.

Mr. Arthur Torres has been appointed assistant professor of commercial Spanish in the School of Commerce, New York University.

Dr. A. P. Usher, who has been assistant professor of economics at Cornell University, has accepted a professorship of economics in the Boston University College of Business Administration.

Dr. Homer B. Vanderblue, of Northwestern University School of Commerce, has been promoted to a full professorship. He has been granted a leave of absence for this academic year to conduct research work for the Denver Civic and Commercial Association.

Assistant Professor Gordon Watkins, of the University of Illinois, has been promoted to the rank of associate professor.

Assistant Professor Myron W. Watkins, of the University of Missouri, has been promoted to the rank of associate professor.

Professor W. C. Weidler, last year at Tulane University, has been recalled to Ohio State University as professor of insurance and foreign trade.

Dr. John H. Williams, formerly assistant professor of economics in Princeton University, has been appointed associate professor of money and banking in the Northwestern University School of Commerce.

Professor C. A. Phillips has resigned his position at Dartmouth College to accept a professorship at Iowa University.

Mr. Chauncey R. Porter has been appointed Secretary of the School of Commerce, Accounts, and Finance, New York University.

Dr. A. P. Winston has been appointed associate professor of business administration in the University of Texas, where he is giving courses in commercial resources and foreign trade.

Mr. Willis Wisler, who was connected with the Working Conditions Service in the Department of Labor during the war and afterwards was labor manager for the associated manufacturers in the Rochester clothing trade, has been appointed counsellor on labor management at the University of Wisconsin. In this connection he gives a training course and field work with students in labor management at the University.

Professor A. B. Wolfe, of the University of Texas, taught courses in sociology and industrial reconstruction in the summer session of the University of California, southern branch, at Los Angeles.

Professor F. E. Wolfe, formerly of Syracuse University, is engaged in research work for the Industrial Relations Department of the United Typothetae of America, the national employers' association of the commercial and periodical branches of the printing industry.

Mr. Elmer Wood, last year instructor at Tufts College, has been made assistant professor of economics at the University of Missouri. During the summer Mr. Wood was employed by the accounting division of the New York Public Service Commission, first district.

Professor Harvey A. Wooster, of Tufts College, was employed during the last summer as advisor to the employment and personnel service departments of the Saco-Lowell Shops, Lowell, Mass.

Mr. Ivan Wright, who has been engaged in research work at Cornell University, has been appointed instructor in agricultural economics at the University of Illinois.

The
American Economic Review

VOL. X, No. 4 SUPPLEMENT December, 1920

THE TAXATION OF EXCESS PROFITS IN GREAT BRITAIN

A Study of the British Excess Profits Duty in Relation to the Problem of Excess Profits Taxation in the United States

A REPORT PREPARED FOR THE COMMITTEE ON WAR FINANCE OF THE AMERICAN ECONOMIC ASSOCIATION

BY

ROBERT MURRAY HAIG, Ph.D.

Associate Professor, School of Business, Columbia University

ASSISTED BY

GEORGE E. HOLMES

of the New York Bar

Publication Offices: Princeton, N. J. and New Haven, Conn.

Subscriptions: American Economic Association, New Haven, Conn

Printed by
Princeton University Press

FOREWORD

When the Committee on War Finance of the American Economic Association laid out its programme in 1918, it decided to supplement its analysis of our new taxes by a study of the chief European systems. Arrangements were made to send a group of economists, lawyers and business men to England and the continent; but owing to the exigencies of the war it proved to be impracticable to secure the necessary passports. The project was accordingly dropped for the time. In the spring of 1919, however, it was again taken up, in a somewhat amended form, and it was determined to send a smaller group to make a study of the British experience with the excess profits and the income taxes. Of this group Professor Haig alone finally found it possible to go.

We deem it fortunate that a member of our own committee was able to undertake the task. Professor Haig had already shown, by the studies which he had made for the New York Mayor's Tax Committee of 1914-16 as well as for some of the provincial governments of Canada in the following years, that he was not only a painstaking and reliable collector of facts, but a tactful and resourceful investigator and a thoroughly impartial scholar capable of forming broad and accurate generalizations. Moreover he had had occasion to familiarise himself with the details of the American law and the administrative practice of our own income and excess profits taxes, having given for two years a course of lectures on the subject at Columbia, and having collaborated with Professor Montgomery in his standard work. These qualities stood Professor Haig in good stead in the task which confronted him on his arrival in England. It is a pleasure to be able to state that he was singularly successful in overcoming the various obstacles which he found in his path; and that he soon won the confidence of the officials as well as of the important taxpayers. The results speak for themselves. We believe that the report will take high rank in the list of scholarly productions by American fiscal students, and that it will come to be regarded as authoritative in its field. We are also confident that it will be of signal use to the legislators who will be entrusted with the responsible duty of revising our own fiscal system. In its final form valuable assistance was rendered by Mr. George E. Holmes who is thoroughly familiar with the legal technique of the prob

lem, and who was unfortunately prevented from carrying out his intention of accompanying Dr. Haig on his mission.

The report, it will be observed, is one *to* the committee and not *by* the committee. For the conclusions, accordingly, Professor Haig himself is solely responsible. But we have little hesitation in saying that in our judgment his conclusions will approve themselves to well-nigh every member of the committee. With this report the work of the Committee on War Finance comes to a close.

EDWIN R. A. SELIGMAN, *Chairman.*

PREFACE

In the spring of 1919 the writer was delegated by the War Finance Committee of the American Economic Association to conduct an investigation of the Excess Profits Duty of Great Britain.* It was hoped that data might be secured which would aid in arriving at a sound conclusion regarding the question of the future of special profits taxation in the United States—whether such a tax should be made a permanent part of the federal tax system and, if so, what should be its form.

The instructions given were very broad and general. They were that the investigator should attempt to secure such information as was available regarding (a) the interpretation of the law by the Inland Revenue Department and the methods adopted by them in meeting problems similar to those which had caused difficulty and dissatisfaction in America, (b) the administrative machinery used in assessing and collecting the tax in so far as it offered suggestions for improvement in our American system, and (c) the opinion of business men, Treasury officials and the public generally, regarding the economic effects of special profits taxation and the place of such taxation in a peace-time revenue system. In addition, Professor T. S. Adams, then Chairman of the Advisory Tax Board, Bureau of Internal Revenue, requested that certain specific information regarding procedure be obtained, some of which was concerned with the excess-profits tax and some with the income tax.

The scope of this assignment and the limited time available for the investigation explain the character of the report. From the welter of material which might have been presented, it has been necessary to select on the basis of relevancy to the American problem. Consequently, although the report contains much descriptive

* Shortly after the formation of the committee in the spring of 1918, plans were made to send a commission to England to study the Excess Profits Duty. However, because of the impossibility of securing passports at that time the project was temporarily abandoned. It was revived the following year when the passport difficulties had disappeared. As constituted in the spring of 1919 the commission was to consist of Mr. George E. Holmes, of New York, Professor Harold N. Burbank, of Harvard University and the writer. Both Professor Burbank and Mr. Holmes found it necessary to withdraw before the date of sailing, so that the field investigation had to be conducted single-handed. However, Mr. Holmes by advice and criticism assisted materially in the formulation of the report.

material which may prove of some worth as a historical record, it does not presume to be a complete history, an exhaustive treatment of organization or a comprehensive manual of procedure. It is rather an account of those phases of British experience and those conclusions of British thinkers which seem most likely to be of interest to students of American financial problems at this precise time.

The investigator was in England from July 20th until August 29th. During most of that period he was in London, from which place he made short journeys to various provincial cities to confer with business men, economists and others who had information or opinions which promised to be of interest. His thanks are due to a large number of persons, all of whom were so kind in forwarding the investigation that it may appear ungenerous to isolate individuals for particular mention. It is not possible to refrain, however, from acknowledging his very special debt to Dr. J. C. Stamp, D. C. E., (now Sir Josiah Stamp, K. B. E.), whose advice and guidance proved to be invaluable, and to Mr. G. B. Canny, of the Board of Inland Revenue, upon whose shoulders fell the task of initiating the investigator into the mazes of British procedure.

As was to be expected, almost all of the business men interviewed made it clear that they preferred not to be quoted directly as having made specific statements regarding the effect of the operation of the Excess-Profits Duty. Very often the facts given were highly confidential in their character, relating to the finances or business practices of themselves and their friends. They were quite willing to tell in confidence how they or their acquaintances were affected by the Duty, or how they avoided the more dire consequences of the law, or to express their frank opinion of the commissioners of Inland Revenue, but, very naturally, they did not care to authorize the publication of their statements in a form which might react to their future embarrassment. Consequently, many of the assertions made in the course of the report are supported, not by specific references to persons and dates, but merely by the investigator's private notes of various conversations. It is, of course, unfortunate that this must be so but by the nature of the conditions there can be no other course. Where specific citations are missing in cases of statements regarding procedure, the basis can be assumed to be either direct information supplied by Treasury officials or confidential documents not ordinarily available.

In order that a conception may be gained, however, of the nature of the sources of the information, the names are given below of all persons interviewed, except those few who requested that their names be not mentioned in any connection. They include: The Rt. Hon. Austen Chamberlain, Chancellor of the Exchequer; The Rt. Hon. Reginald McKenna, formerly Chancellor of the Exchequer, now Chairman, London Joint City and Midland Bank; Henry Higgs, the Treasury; H. P. Hamilton, Deputy Chairman, Board of Inland Revenue; G. B. Canny, Assistant Secretary, Board of Inland Revenue; R. V. N. Hopkins, Commissioner of Inland Revenue; E. R. Harrison, Inland Revenue; Sir Josiah Stamp, formerly Assistant Secretary, Board of Inland Revenue, member, Royal Commission on the Income Tax; W. E. Snelling, formerly of the Inland Revenue, now tax consultant; E. A. McNeill, formerly of the Inland Revenue, now with Spicer and Pegler, accountants; Sir Hamar Greenwood, Under-Secretary to the Foreign Office, Overseas Trade Department; Professor S. J. Chapman, Board of Trade; Professor H. S. Foxwell, University of London; Professor F. Y. Edgeworth, Oxford University; Mrs. Lilian Knowles, University of London, member, Royal Commission on the Income Tax; H. B. Henderson, Cambridge University; J. A. Hobson; Sidney and Beatrice Webb; Joseph Thorp; John Hilton; Henry Clay; G. D. H. Cole; A. W. Madsen and John Paul, United Committee for the Taxation of Land Values; Hartley Withers, Editor of *The Economist;* Sir Alexander D. Kleinwort, Alexander Kleinwort Sons & Co.; Sir Woodman Burbridge, Managing Director, Harrod's Stores, Inc.; The Hon. John Barry, Kirkcaldy Linoleum Co.; H. Gordon Selfridge; Sir Wilfred Stokes, Managing Director, Ransomes & Rapier, Ltd., Chairman of the Executive Committee of the Controlled Firms Section of the Federation of British Industries; H. White Smith, Chairman, British and Colonial Aeroplane Co., Ltd.; Robert Sims, Chairman, Messrs. Manlove, Allicott & Co., Ltd.; R. H. Griffith, Secretary, Harrod's Stores, Inc.; Charles E. Musgrave, Secretary, London Chamber of Commerce; W. M. Borradaile, Secretary, Executive Committee, Controlled Firms Section, Federation of British Industries; E. L. Hill, General Secretary, Federation of British Industries; B. Scott, Parliamentary Committee, Federation of British Industries; R. B. Dunwoody, Secretary, Association of British Chambers of Commerce; A. J. Hobson, Chairman, Thomas Turner Co., Member, Committee on

Financial Risks Attaching to the Holding of Trading Stocks; Sidney Hermon and W. B. Secretan, Directors, Horrockses, Crewdson & Co., Ltd.; W. Barraclough, General Manager, Charles Semon & Co.; L. Whitby, Managing Director, Whitby Brothers, Ltd.; H. W. Marten, of Messrs. Harvey, Preen & Co., accountants; Walter P. Rocke, of Price, Waterhouse & Co., accountants; and A. Charlesworth, of Messrs. Harris, Allan & Co., Advisory Accountant, London and Eastern Counties Association of Controlled Establishments.

The writer desires to record his appreciation of the wise counsel and acute criticism of his friend, Mr. George E. Holmes. Finally in this unedited paragraph he wishes to acknowledge his indebtedness to his wife, Gertrude Hopping Haig, whose self-sacrifice made the journey possible and whose editorial skill is responsible for whatever merit the literary form of the monograph may possess.

Robert Murray Haig.

School of Business,
Columbia University,
July 31, 1920.

TABLE OF CONTENTS

PART ONE

ORIGIN AND EVOLUTION OF THE ACT

PART TWO

INTERPRETATION AND PROCEDURE

PART THREE

Fiscal and Economic Consequences

PART FOUR

PART ONE

ORIGIN AND EVOLUTION OF THE ACT

PART ONE

ORIGIN AND EVOLUTION OF THE ACT

The determined effort to appropriate abnormal profits for public purposes is the feature which distinguishes the financial history of the World War most strikingly from that of previous wars. The British Excess Profits Duty, if not the very first of these special profits taxes, is certainly in most respects the greatest and best of them all. It was established very early in the war, it was applied rigorously and continuously throughout the struggle and it is being heavily utilized during this period of reconstruction. Its future place in the British financial structure constitutes one of the most acute problems confronting the British Government today.

Whatever future research may reveal regarding the early precedents for this form of taxation, the evidence shows clearly that the British Duty owes its existence to no exterior influences. It was an indigenous product—a spontaneous local reaction to a set of circumstances which arose in Great Britain with the outbreak of hostilities.

Development of Demand for Profits Control

The war had scarcely begun when it became apparent that public sentiment demanded some effective type of profits control. This sentiment rested on a broad foundation which included among other elements the dissatisfaction of consumers with high prices, the conviction of the business men that the burden of the war should be borne by those making large profits and the refusal of labor to assist anybody "to make money out of the war."

The Consumers' Reaction to High Prices.—There was the general expectation, based upon experience in previous wars, that large and fortuitous gains would accrue to the benefit of the few who chanced, through no particular skill or foresight of their own, to be in a position to supply the goods brought into a sudden and large demand by the war. It was apparent almost from the very beginning that this expectation was well founded. Large profits began to be reported. The statements of many of the limited companies as they were made public showed swollen incomes. The situation was aggravated by the fact that a large proportion of

these concerns dealt in articles of common consumption, such as clothing and foodstuffs, the prices of which had increased by leaps and bounds. One case in particular which seems to have kindled the public anger was that of a flour milling concern which announced an increase of profits of about £350,000, accompanying its announcement with an apologetic statement to the effect that the gains were the result of accident rather than design. Public discussion soon became saturated with scandal about fortunes being made out of the war and the community in general, interested primarily as consumers, but also, of course, as taxpayers and as direct participants in the struggle, reacted violently against the practice which was soon christened "profiteering," especially when the field of operations was that of the necessities of life.

The Business Men's Disposition to Penalize the Profiteer.—The consumers' sentiment was supplemented by a feeling in the business community that something should be done to control profits. In the convulsion of the early months of the war, the business man who was struggling to preserve the very life of his enterprise and to find some basis for operation which would enable him to continue in business at all found little sympathy in his heart for the "profiteer" who in this difficult time was earning not only his ordinary rate of profit but also large sums in addition. The business community generally, quite conscious that great profits were being made by a fortunate few, was very willing to support a movement which proposed to weight the burden of taxation against those new and "excessive" profits. This willingness was accentuated by the knowledge that the taxes thus borne, if imposed in some other manner, would probably fall more heavily upon business generally.

The Laborers' Aversion to Profits.—Perhaps more important than either of the influences already mentioned in furthering the general movement toward profits control and certainly more influential in bringing about the particular acts passed in 1915, was labor's aversion to working for the purpose of creating war profits for any person. The collectivist, socialistic sentiment which is so strong a factor in the British labor movement was responsible for a strong antagonism to profits *as such*—distinguished from "profiteering."[1] It became evident as soon as the

[1] The following excerpt from the Parliamentary debates illustrates a reaction which appears to be typical of British labor:

"Mr. Brace asked the Government to reconsider their position upon

Government undertook to mobilize industries for war purposes that the goodwill and coöperation of labor could be obtained only at a price.[2] That price included assurances that the efforts of the workers to speed-up production would not be reflected in high profits to the owners of the plants. Thus it came about that the measures adopted were, to a large degree, concessions to the workers. There was general agreement among the persons interviewed that both the Excess Profits Duty and its forerunner, the Munitions Levy, were to be interpreted as "sops to labor."

This combination of factors made the demand for some plan of war-profits control too great to be denied, had the Government been disposed to deny it. But on the contrary the Chancellor of the Exchequer was industriously searching for sources of additional revenue and eagerly seized the opportunity to enlist this public sentiment to the support of a tax proposal which held possibilities of immense productivity.

THE MUNITIONS LEVY

At the very beginning it should be pointed out that the Excess Profits Duty did not constitute the whole of the British plan for controlling profits. In fact, even though it did become ultimately the most important part of that plan, it was not even the first measure of control to be enacted into law, for the Munitions Levy had already been in force six months when the Excess Profits Duty was established. During the early years of the war there developed in England a considerable diversity of special profit-appropriating devices. For a time each of a number of bureaus and departments had its own particular brand of "private" profits tax which it felt was best adapted to its needs and which it desired to apply in place of the Excess Profits Duty. Thus it was

the question of nationalization. Output was absolutely necessary or this country would perish as a world Power (hear, hear), but unless the Prime Minister could get the miners away from the idea that the more they produced in coal the more they were producing in profit for private enterprise he was asking for trouble in his attempt to get increased output."

The Times (London), August 19, 1919.

[2] Thus Sir A. Markham remarked in the House of Commons: "There is considerable unrest among workingmen owing to their thinking that unreasonable profits are being made. A profits tax would do more to increase production than anything else could do." 1915. Debates, 67: 629. *Cf.* also *ibid.*, 625; 74: 408.

necessary that the Duty should interact with such special devices as the plan for the control of shipping profits; the coal mines excess payments and payments under the guarantee clauses of the coal mines control agreement; the Excess Mineral Rights Duty[3] and the Munitions Levy. The most important of these was the last.

The Munitions of War Act was passed July 2, 1915. Its general purpose is explained by its full title—"An Act to make provision for furthering the efficient manufacture, transport and supply of munitions for the present War; and for purposes incidental thereto."[4] One of the "purposes incidental thereto" was to placate labor by placing limitations on the profits of munition manufacturers.[5] The Act permitted the Minister of Munitions to designate as a "controlled establishment" any concern in which munitions work was carried on in case he considered such action "expedient for the purpose of the sucessful prosecution of the war."[6] These controlled establishments, in addition to operating under special labor restrictions, were required to pay into the Exchequer "any excess of the net profits . . . over the amount divisible under this Act."[7] "The amount divisible" was, in turn, defined as "an amount exceeding by one-fifth, the standard amount of profits."[8] Finally, "the standard amount of profits" was taken to be "the average of the amount of the net profits for the two financial years of the establishment completed next before the outbreak of the war or a proportionate part thereof."[9] Consequently by designating a munitions concern as a controlled establishment the Minister of Munitions automatically limited its profits to 120 per cent of the average of its two pre-war years.[10]

[3] For the text of the statutes relating to the Excess Mineral Rights Duty *cf. infra,* Appendix, A, II.

[4] 5 and 6 Geo. 5, ch. 54. For the text of such portions of this act as have to do with the imposition of the Munitions Levy on the profits of "controlled establishments," *cf. infra,* Appendix A, I.

[5] "The House remembers the history of the Munitions Levy. It was imposed, rightly and necessarily, partly for revenue, but mainly for this reason, that you could not expect working men to do their best if they had the feeling that their work was being used to make a private profit." Speech of Bonar Law, May 2, 1917. Debates, 93: 383.

[6] 5 and 6 Geo. 5, ch. 54, sec. 4.

[7] *Ibid.,* sec. 4 (1).

[8] *Ibid.,* sec. 5 (1).

[9] *Ibid.,* sec. 5 (2).

[10] Various allowances were made under special circumstances, such, for example, as one conditioned upon increased output.

This act imposed what was, in effect, an excess profits tax of limited application based on a pre-war standard. The statute itself was very brief and general,[11] leaving the difficult problems of application to the administration.[12] The administration, instead of being intrusted to the tax authorities, was delegated to a special organization set up under the Ministry of Munitions.

Even after the Excess Profits Duty proper had been enacted, the Munitions Levy continued to be administered separately, although in 1916[13] the two taxes were synchronized by an arrangement whereby both were calculated and the higher paid. The final merging was accomplished by the Finance Act of 1917,[14] which abolished the Munitions Levy as of January 1st of that year and delegated to the Board of Inland Revenue the task of settling up the assessments. Since that date the Excess Profits Duty has applied to controlled and uncontrolled firms alike.

The underlying reason for the separate administration of the Munitions Levy before 1917 was, according to report, personal friction between members of the Government.[15] In any case the experiment proved to be an unhappy one, the chief criticisms being directed against the apparent inability to arrive at definite assessments which resulted in an overwhelming accumulation of unfinished business and almost no collections. Apparently no complete statement of the yield of the Levy has yet been made public, the collections being merged in the financial statements with those of the Excess Profits Duty. However, the Commissioners of Inland Revenue in their 1917 report announced that the net receipts from the Levy were £4,788,636 for the fiscal year[16] and in their 1918 report made the following statement:

"The total amount assessed on 'controlled' establishments (for periods in which they were controlled) in the name of Excess Profits Duty and Munitions Levy taken together was on the 31st of March, 1918, £69,000,000. The bulk of this sum has now reached the Exchequer, while the figure of the aggregate assess-

[11] *Cf. infra,* Appendix A, I.

[12] The principles which guided the administration are formulated in a series of highly important "Rules."

[13] Finance Act, 1916, sec. 48.

[14] *Ibid.,* 1917, sec. 24; *cf.* Debates, 93:383.

[15] *Cf. infra,* p. 54, footnote.

[16] Sixtieth Report of the Commissioners of His Majesty's Inland Revenue for the year ended 31st March, 1917 (Cd. 8887), p. 5.

ment is increasing at a rapid rate."[17] Finally in his 1918 budget speech Mr. Bonar Law said that the collections from controlled firms during the preceding year had amounted to "upwards of £30,000,000."[18]

In March, 1917, it was reported that more than 7,500 establishments had been officially designated as "controlled."

The Enactment of the Excess Profits Duty

The proposal for a general excess profits tax appears to have been first broached in the House of Commons late in November, 1914, when Mr. Lloyd George was asked whether he would propose in his next budget "a special income tax . . . with the object of impounding for the benefit of the State not less than 75 per cent of the increase on all separate incomes which are larger during this time of war than they were before the war."[19] The Chancellor declined to answer. From time to time the plan was again urged in the House[20] and it is known that as early as March, 1915, the leaders of the Government were seriously discussing the project.[21] However, Lloyd George in his budget speech on May 4, 1915, went no further than to say that if the war were to last two or three years "it would be perfectly legitimate to resort to those who make exceptional incomes out of the War" to secure the necessary revenues. He remarked that "the profits in certain trades" were "certainly considerably higher . . . than . . . in time of peace." Some were making "probably huge profits," and others had "raised their income far beyond their ordinary standard."[22]

In the debate which followed Sir A. Markham made a spirited plea for the immediate enactment of a profits tax. He said in part:

"I am one who eagerly desired to hear the Chancellor say he

[17] Cd. 9151, p. 21.

[18] Debates, 105: 691.

[19] Question of Mr. Jowett. November 27, 1914. *Ibid.*, 68: 1493.

[20] *E.g.*, February 15, 1915, *ibid.*, 69: 725; June 16, 1915, *ibid.*, 72: 725; June 28, 1915, *ibid.*, 72: 1463.

[21] The Prime Minister (Mr. Asquith) conferred with Sir Algernon Firth regarding the proposal at the end of March or the beginning of April, 1915. *Cf.* Association of Chambers of Commerce. Excess-Profits Duty. Deputation from the Executive Council to the Chancellor of the Exchequer on 3rd April, 1918.

[22] Debates, 71: 996.

would put a tax upon the immense war profits that are being made from the necessaries of life, such as bread, coal, etc. . . . The neglect of the Government to tax war profits is an invitation to everybody to rob the public to the utmost. . . . If the Chancellor had stated definitely that he was going to tax all profits in excess of the average earnings over the last three years, that would at all events have given some satisfaction to the country. . . . We are entirely in the hands of the Government. All I can urge is that the Government should not rest quietly and allow people who gamble in the necessities of life to enrich themselves by war profits. . . ."[23]

On the 15th of June it was stated in the House that the obstacle to the introduction of a profits tax was the number of difficulties to be overcome in administering such a measure.[24] On the following day, however, the Government definitely announced their intention to introduce a special profits tax. The Financial Secretary to the Treasury, Mr. Montagu, spoke as follows:

"I do most heartily agree . . . that it is necessary and that it is just that we should find and find soon, a means of taxing profits made during the War. . . . I hope that at some very early date we shall be in a position to give Parliament a water-tight proposal for getting at the extra income made during the War and for taxing it substantially.

"I would suggest . . . that it is desirable that the country should know that it is our intention to do that. . . . Our delay is simply caused by our desire to make a scheme which shall be water-tight."[25]

In the reorganization of the Government which occurred in June, 1915, Lloyd George became Minister of Munitions and early in July secured his act imposing the Munitions Levy.[26] Thus it came about that the Excess Profits Duty was finally introduced by Mr. McKenna who had succeeded Lloyd George as Chancellor of the Exchequer.[27] The measure constituted one of the proposals

23 Debates, 71: 1033-1034.

24 *Ibid.*, 72: 635.

25 June 16, 1915. *Ibid.*, 729.

26 *Cf. supra*, p. 5.

27 To Mr. McKenna belongs the credit for having assumed ministerial responsibility for the introduction of the measure. But the difficult task of developing the proposal and putting it into the form of a statute at once broadly equitable and administratively practicable fell upon the capable shoulders of Dr. J. C. Stamp, then of the Inland Revenue. In official circles

contained in his courageous "taxing budget" of September 21, 1915.[28] Its reception by the House was favorable, the principle of the tax being generally approved and the critical comments for the most part taking the form of insistence that special allowances for unusual cases be fully provided for.[29] The bill was finally enacted into law December 23, 1915.[30]

The Statute

The virtues and defects of the British Duty cannot be intelligently discussed and appraised until the main characteristics of the statute are understood. The provisions of the statute are presented with considerable fullness in the latter sections of this report,[31] but for the convenience of those who prefer to omit the details of interpretation and procedure a brief statement of the more significant features of the act as passed is given at this point, together with a chronological account of its development since 1915.

1915 Act.—With admirable draftsmanship the statute is compressed into a brief document of less than ten pages, supplemented by a schedule of five additional pages dealing with the computation of profits, the pre-war standard and invested capital.[32]

The scope of the application of the British Duty is different from that of the American law. Our 1918 law is narrow. Under it we now tax corporations alone and even exempt "personal service corporations." Our earlier excess profits tax law was all-inclusive, applying to all business enterprises whether carried on by individuals, partnerships or corporations and extending even to profits of farmers and to professional earnings. The English statute strikes a compromise between these two extremes. It applies to all trades and businesses, not merely to corporations, but it specifically excepts (1) husbandry, (2) "offices or employments" (*viz.*, salaries) and (3) professions.[33] This was the ex-

the Duty is nicknamed "Stamp's baby" and it is generally acknowledged that credit for making the tax a practical success must be given to him rather than to any other one person.

28 Debates, 74: 341.

29 *Ibid.*, 362, 364, 368, 371, 383, 404, 408.

30 Finance (No. 2) Act, 1915. 5 and 6 Geo. 5, chap. 89. *Cf. infra*, Appendix A, II.

31 *Cf. infra*, pp. 27-142.

32 For the full text, *cf. infra*, Appendix A, II.

33 Finance (No. 2) Act, 1915, sec. 39. For a discussion of the details of the definition of "profession" *cf. infra*, p. 28.

tent of the application as defined in the original statute of 1915 and it has remained unchanged throughout the history of the tax.[34]

The Duty is a tax on profits arising during the war. It is not restricted to profits specifically occasioned by the war. No attempt is made to inquire into the causes lying behind the increase in profits and to isolate those which are due to war conditions. Early in the history of the proposal it was urged that such an attempt be made but the objections of the administrators were accepted as conclusive. The underlying assumption of the Duty is, consequently, that all increased profits during war time are *excess* profits properly subject to special taxation.

There is a general impression current in the United States (fostered and encouraged by the terminology of the Revenue Act of 1918) that the English Duty, with its pre-war standard, results in a tax on *war* profits whereas an invested capital standard results in a tax on *excess* profits. This, of course, is a misconception. Both standards result in excess profits taxes— the first taxing as excessive all increased profits during war time and the other taxing as excessive all rich profits during war time. As a matter of fact the British use both standards. They fully recognize that their Duty is not a pure war-profits tax and part of the dissatisfaction with the Duty rests upon this foundation.

As originally passed in 1915 the measure appropriated fifty per cent of the excess profits which were defined as those which, "in the given accounting period, exceeded by more than two hundred pounds the pre-war standard of profits. . . ."[35] If, however, the profits in a subsequent year fell below the pre-war standard a refund was permitted of sufficient amount to reduce the total payment to the sum which would have been paid had the assessment been made against the net profit for the entire length of time, including the several accounting periods.[36] The importance of this relief provision should be fully appreciated. From

[34] For the special application of the law to mineral rights, *cf. infra*, pp. 29-30, to coöperative societies, *cf. infra*, pp. 30-31, to controlled establishments, *cf. infra*, p. 30.

[35] Finance (No. 2) Act, 1915, sec. 38. The rates were changed several times (*cf. infra*, pp. 34-38) and the initial exemption of two hundred pounds, was later made more liberal (*cf. infra*, pp. 33-34).

[36] *Ibid.*, sec. 38 (3). *Cf. infra*, p. 46 *et seq.* The application of this provision to shipping concerns was afterwards limited. *Cf. infra*, pp. 47-48.

the very beginning the Duty applied only to those excess profits which, even when averaged up with the smaller earnings of later years of depression, continued to be excessive in amount.

The Duty is, in fact, merely a specialized form of income tax and the British naturally built their statute on the foundation of their long-established income-tax system. Their statute specifies that, in general, profits for the purposes of the Duty shall be determined "on the same principles as the profits and gains . . . are . . . determined for the purpose of the income tax."[37] Yet special modifications must be made—modifications, moreover, which are different from those made in this country—in order to fit the income into the framework of the profits tax.

In the first place the British Duty is designed to be a trading-profits tax while ours is a tax on the total income of the business. Consequently the British exclude in arriving at taxable profits for purposes of the Duty any income which the company has received from investments.[38] Thus, also, profits of the nature of appreciation of assets, except trading stock, are eliminated, except under certain specified circumstances.[39]

In the next place, the practice in Great Britain is to average business profits for a period of three years preceding in order to establish the taxable income for the current year. This system of averages was deemed unsuited to the purposes of the Excess Profits Duty and in this case profits were declared to be those actually arising during the accounting period.[40]

Again, the British system of "collection-at-source" made it necessary to allow a concern to deduct certain items upon which it prepaid the income tax and to include in its profits certain items upon which others had prepaid the income tax before transmitting them.[41]

To prevent evasion the increase of remuneration of directors and managers was restricted even though the payments were allowed for income tax purposes.[42]

[37] Finance (No. 2) Act, 1915, sec. 40 (1).

[38] For the special case of insurance companies and similar concerns, *cf. infra*, p. 42.

[39] For a full discussion of this point, *cf. infra*, p. 69 *et seq.*

[40] *Ibid.*, Fourth Schedule, Part I, rule 1. *Cf. infra*, p. 39.

[41] For details, *cf. infra*, p. 41.

[42] *Ibid.*, rule 5. *Cf. infra*, pp. 43-44.

To prevent injustice through variations in the rates of the Duty or through the inflation of profits of a particular year, the income from long-term contracts is allocated over the life of the contract having regard to the extent to which the contract was performed in the various periods and subjected to the rates in force in such periods.[43]

Finally, in addition to the provision, already alluded to, allowing rebates of Duty paid in case of subsequent years of depression, a section was included in the law which allowed this modification of profits before making the result subject to Duty at all: when the net result of the operation of business during the three years preceding the war was a loss, any part of the profits of the current accounting period which was applied to the extinction of that loss was recognized as an allowable deduction for purposes of the Excess Profits Duty.[44]

These, then, are the chief[45] modifications made in the incomes of business concerns in order to arrive at a figure suitable for use in a special profits tax. However, the rate is applied only to such portion of this as was in excess of what was considered the normal, reasonable profit of the business. This reasonable profit was determined by the device of the "pre-war standard."

The nature of the British pre-war standard is often misunderstood in the United States. In current discussion it is ordinarily spoken of as being merely an average of pre-war profits. As a matter of fact it is an alternative standard, with a choice as to whether the criterion shall be previous profits or a return on invested capital, and with the option in favor of the taxpayer rather than against him as was the case with our law as in force for the year 1918. From the time of the passage of their original statute in 1915 the British have defined their "pre-war standard" as the average of the profits of certain pre-war years (termed the "profits standard") unless it is shown to the satisfaction of the Commissioners of Inland Revenue that this is smaller than the so-called "percentage standard," determined by applying the "statutory percentage" to the amount of capital invested in the business.[46]

The selection of the years whose earnings are averaged to

43 *Cf. infra*, pp. 40-41.

44 Finance (No. 2) Act, 1915, Fourth Schedule, Part I, rule 7. *Cf. infra*, pp. 45-46.

45 For a full treatment *cf. infra*, p. 38, *et seq.*

46 *Ibid.*, sec. 40 (2), *cf. infra*, p. 73 *et seq.*

establish the "profits standard" is a complicated proceeding. Ordinarily the standard consists of "the average of any two of the three last pre-war trade years to be selected by the taxpayer."[47] However, when these three years were years of abnormal depression (*viz.* the average profit at least 25 per cent below the average profit of the preceding three years), the average of any four out of the preceding six last pre-war trade years may be substituted.[48] In a case of a business commenced too recently to have had three full pre-war trade years, the taxpayer was given the option of taking the average of the two last pre-war years or merely the results of the trading of the final pre-war year. If commenced too recently to have even two full pre-war years, the profits of the one pre-war year were to be used as the profits standard. In newer businesses dependence is placed entirely upon the "percentage standard."[49]

The profits standard is subject to an important modification in favor of the taxpayer when he can show that capital which was invested before the close of the pre-war period did not become remunerative (or fully remunerative) until later.[50]

When capital has been added to or withdrawn from the business during the time intervening between the end of the pre-war period and the beginning of the taxable account-period, the income of the accounting period is decreased or increased by an amount equal to the statutory percentage of the amount of capital added or withdrawn before comparison is made with the profits standard.

The "statutory rate" is applied to invested capital to establish the "percentage standard" which is utilized in certain cases in place of the "profits standard." It was originally[51] made 6 per cent in the case of a corporation and 7 per cent in the case of partnerships and individuals,[52] the difference of one per cent being intended to compensate roughly for the advantage which the corporation enjoyed by virtue of its ability to deduct from its earnings the salaries of its managers.[53]

47 Finance (No. 2) Act, 1915, sec. 40 (2), *cf. infra*, p. 73, *et seq.*

48 *Ibid.*, Fourth Schedule, Part II, rule 3.

49 *Ibid.*, rule 4. For the profits standard in the case of agencies, *cf. infra*, pp. 74-75.

50 *Ibid.*, sec. 41 (4). *Cf. infra*, p. 79.

51 Later these rates were changed. *Cf. infra*, p. 76.

52 *Ibid.*, sec. 40 (2).

53 *Cf. supra*, p. 92.

The "statutory rate" is not absolutely rigid but may be said to be the minimum rate of exemption, applicable to ordinary businesses. The rate may be increased upon appeal without maximum limit, and instances are recorded where the total rate allowed is as high as 29½ per cent.[54]

Applications for increases in the statutory percentage are entertained only when made in behalf of a "class of trade or business."[55] When the Commissioners receive such an application they must ordinarily[56] lay it before the Board of Referees. Such applications are made with great freedom and increases are granted in a large proportion of cases.[57]

The use of this percentage standard involves, of course, the calculation of invested capital, the task which occasions such great difficulty in this country. The standard is established by applying the statutory percentage to "the capital of the trade or business as existing at the end of the last pre-war trade year."[58] When there has been an increase or decrease in the invested capital since that date, an adjustment is made in the profits of the current year, the pre-war standard being suffered to remain undisturbed.[59] This has the important administrative advantage of confining the successive annual discussions with the taxpayer to questions regarding recent adjustments in invested capital.

The British definition of invested capital includes:

(1) Money;

(2) Assets acquired by purchase valued at the purchase price but minus (a) deductions for wear and tear or replacement, and (b) deductions for unpaid purchase money;

(3) Assets in the form of debts due to the business, appraised, as for income tax purposes, at their probable present worth and

(4) Assets not acquired by purchase appraised at their value when acquired subject to the usual deductions for wear and tear, etc.

The statute further states positively that any capital, the income on which is not subject to the Duty, and borrowed money shall be excluded. Moreover in appraising assets in class 4 above,

54 Gold mining in Egypt when carried on by a partnership. *Cf. infra*, p. 134.

55 Finance (No. 2) Act, 1915, sec. 42.

56 For details, *cf. infra*, p. 125.

57 *Cf. infra*, p. 121 *et seq.*

58 *Ibid.*, sec. 40 (2).

59 *Ibid.*, sec. 41. *Cf. infra*, p. 78 *et seq.*

"the value of the consideration at the time the asset was acquired" is the standard prescribed, with one exception, designed to prevent evasion through resort to incorporation. This exception is that in the case of a business which is converted into a company whose shares are wholly or mainly held by the former owner of the business, "no value shall be attached to those shares so far as they are represented by goodwill or otherwise than by material assets of the company."[60]

It will be observed that the British concept of invested capital, like our own, excludes unrealized appreciations. The starting point with them is the original value of the asset invested in the enterprise from which value they make deductions for losses and wear and tear and to which value they, in effect, make additions for increases and decreases in capital invested. The operation is concerned with the asset side of the balance sheet. We on the other hand deal primarily with the liability side of the balance sheet, making various alterations necessary as a result of a scrutiny of the assets. We begin with the outstanding capital stock and in so far as it represents cash or assets[61] actually put into the enterprise it is accepted as invested capital. Moreover this sum is not reduced because of subsequent losses suffered by the concern. It is a minimum which is irreducible for such reasons, representing the capital which has been "sunk" in the enterprise and a return must be earned upon it before there are any excess profits subject to tax. For example, if A invests $100,000 in a corporation in 1900, receiving therefor $100,000 in capital stock of the corporation, and the corporation proceeds to lose $50,000 in the course of trading during the next twenty years so that the real worth of the assets in 1920, is only $50,000, we would give the corporation an invested capital standard of $100,000 for the year 1920. In England the figure would be at $50,000.[62]

This fundamental difference extends moreover into the field of depreciation. Suppose, in the case cited above, that $50,000 of the $100,000 received for the stock was immediately invested in machinery with a life of 20 years, and that $2,500 was annually

60 Finance (No. 2) Act 1915, Fourth Schedule, Part III. For qualifications and details, *cf. infra*, p. 90. Especially note *ibid.*, 1915, Part II, rule 6 and *ibid.*, 1916, sec. 47c. *Cf. infra*, Appendix A, II and Appendix A, III.

61 With certain limitations. *Cf. infra*, p. 83.

62 For a modification of this rule in so far as it affects certain losses during the pre-war period, *cf. ibid.*, 1917, sec. 26 (6), *infra*, p. 89.

put in reserve for depreciation. In 1920 this reserve would consequently amount to $50,000. In this country we, of course, do not permit the addition of this $50,000 reserve to the $100,000 original investment, and give the corporation an invested capital of $150,000. What we do allow is the $100,000 originally put in and we continue to allow that amount whether or not any depreciation deductions are made, whether the reserve which may be built up from such deductions is invested within or outside the business or whether it is lost through unwise investment or use. We even permit an increase in invested capital equal to any excessive depreciation deducted or for any realized appreciations in the value of invested reserves A similar corporation in England, on the other hand, in 1920, when the machinery is scrapped, would receive no credit at all for it as invested capital except such part of the depreciation reserve of $50,000 as had been actually reinvested in the business. During the course of the depreciation of the machinery its value for invested capital would be the original cost minus "proper deductions" for depreciation plus the depreciation reserves reinvested in the business.

As a consequence the British concept of invested capital tends to be more a "current capital" concept than ours.[63] Although neither they nor we reappraise assets periodically during their life, they tend to approach more closely the value of the assets actually at work during the current accounting period.

This distinction must not be overemphasized, however. In fact the number of American corporations which benefit by virtue of it is undoubtedly small. In the absence of full allowances for net losses from period to period such relief is probably justified.

The assessment is vested in the Commissioners of Inland Revenue to whom the Act gives broad power of adjustment in particular cases.[64] A taxpayer may apply to them for modification of any of the provisions which specify the details as to the calculation of

[63] Professor Plehn in his article entitled "War Profits and Excess-Profits Taxes" in the *American Economic Review* for June, 1920 (pp. 283-298) appears to have been led astray by the fact that the English percentage standard is established by applying the statutory percentage to the invested capital as it stood at the end of the last pre-war year. As a matter of fact the modifications permitted because of increases or decreases in invested capital after that date take into account with absolute exactness the subsequent variations in capital even though those modifications are made in the profits of the current year rather than in the invested capital itself.

[64] Finance (No. 2) Act, 1915, sec. 40 (3).

profits, the establishment of the standard or the determination of invested capital when he feels that such modifications should be made in his case "owing to a change in the constitution of a partnership, or to the postponement or suspension, as a consequence of the present war, of renewals or repairs, or to the exceptional depreciation or obsolescence of assets employed in the trade or business due to the present war, or to the necessity in connection with the present war of providing plant which will not be wanted for the purposes of the trade or business after the termination of the war or to any other special circumstances specified in regulations made by the Treasury." There is an appeal from the decision of the Commissioners to the Board of Referees on questions included within the scope of the above section and an appeal to the regular, income-tax, appeal bodies, the general Commissioners and the special Commissioners, on other questions.[65]

Payment may be made by instalments at the discretion of the Commissioners, but a two-months notice must be given the taxpayer.[66]

1916 Amendments.—In his second budget speech, April 4, 1916, Mr. McKenna reported that, because of the delay in passing the measure, only £140,000 had been collected in place of the anticipated £6,000,000.[67] He asked that the rate be increased to 60 per cent, which he estimated would result in a yield for the year 1916-17 of £86,000,000. He pointed out to those who felt that the rate should be still higher, that, in one illustrative case, the 60 per cent rate, combined with the suggested new charge for Income Tax and Supertax would absorb no less than 77 per cent of such profits as would be classified as excessive under the British statutory provisions. The new rate was readily accepted by the House.[68]

Aside from the increase in the rate the most important change in the law in 1916 had to do with the establishment of a new arrangement whereby the profits from the sale of ships were subjected to special treatment.[69] There were also provisions which

[65] Finance (No. 2) Act, 1915, sec. 45 (5).

[66] *Ibid.*, sec. 45 (1).

[67] Debates 81: 1049.

[68] Finance Act, 1916, sec. 45 (2).

[69] *Ibid.*, sec. 47. *Cf. infra*, p. 80.

articulated the Excess Profits Duty with the Munitions Levy[70] and accomplished various minor alterations.[71]

1917 Amendments.—By the spring of 1917, Mr. Bonar Law, who had become Chancellor of the Exchequer, was able to report that the Excess Profits Duty had begun to play a leading rôle in financing the war. In the year 1916-17 it had produced no less than £139,920,000, which was £53,920,000 more than the estimate and nearly one fourth of the total revenue.[72] Not content, however, he called for a still greater contribution from this source during the year to come. He asked that the rate be increased from 60 per cent to 80 per cent which would result in an estimated increase of £20,000,000 in the yield.[73] The proposal was greeted by cheers in the House of Commons.[74] Mr. McKenna, however, sounded a warning note when he expressed some doubt as to whether, with an 80 per cent rate, coupled with income tax and supertax, enough would be left to provide a proper incentive to business.[75] The 80 per cent rate was made to apply to profits arising after January 1, 1917 and with this step the high-water-mark in the rates was reached.[76] The writer was informed that the sentiment in favor of still higher taxation of excess-profits was very strong and that a promise was even given at the time of a reorganization of the Government that the rate of the Duty would be pushed to the limit of 100 per cent.[77] It is said that only the most vehement protests from the administrative officials prevented the Government from fulfilling this pledge. The officials insisted that with a rate of 100 per cent the entire plan would collapse and urged 60 per cent, or, at the very most, 70 per cent, as the highest practical rate. Subsequent events substantiated the wisdom of

70 Finance Act, 1916, sec. 48. *Cf. infra*, p. 30.

71 *Ibid.*, sec. 49-57. For changes with reference to directors' fees, *cf. infra*, pp. 43-44; profits applied to previous losses, p. 46; provision regarding accounting period, p. 38; accumulating profits declared not to be invested capital, p. 84; deductibility of Munitions exchequer payments from income, p. 44; appeals in case of controlled establishments, p. 118, and exemption of bankrupt concerns, p. 29.

72 Debates, 93:373.

73 *Ibid.*, 388.

74 *Ibid.*, 382.

75 *Ibid.*, 397.

76 Finance Act, 1917, sec. 20.

77 It is apparent from the debate in the House of Commons on April 4, 1916 that Sir A. Markham had some time before suggested a 100 per cent rate. Debates, 81:1103.

this view for most of the abuses which later arose appear to be traceable to the extremely high rate established in 1917.[78]

The establishment of the 80 per cent rate was accompanied by the introduction of a notable series of relief provisions which mitigated the force of the heavy rate. First, the initial exemption was increased in the case of small concerns with a small pre-war standard.[79] Again, one per cent was added to the statutory percentage of unincorporated concerns and three per cent was added to the percentages as they stood after this increase in the case of all concerns when the percentage was used for the purpose of establishing the allowance for increased capital or for newly established businesses.[80] This limited increase in the statutory percentage was made, according to Mr. Bonar Law, upon the advice of the Board of Referees and in recognition of the increase in the cost of money since the War.[81] Moreover, special provisions granted relief in certain cases in which loss had been suffered during the pre-war period, one provision permitting the Commissioners to ignore the loss in the case of certain concerns using the profits standard[82] and another permitting them to restore to invested capital, in the case of concerns using the percentage standard, former assets which had ceased to form a part of the business or increases in borrowed money due to trading losses in the six pre-war years.[83] Finally the number of pre-war years during which capital might have been introduced into the business and yet form a basis for adjustment on grounds of being temporarily unremunerative was increased from three to six.[84]

About this time the business of shipping, which had been exceedingly profitable, was brought under control by a process of requisition and prescribed rates, 90 per cent of all ships of 1600 tons and upwards having been appropriated by the Government in this fashion on the date of the Chancellor's speech.[85] The rates were fixed at a point which was expected to yield low returns and the Chancellor was eager to prevent the owners from increasing that return through the medium of repayments of Excess Profits

78 *Cf. infra*, pp. 149-152.

79 Finance Act, 1917, sec. 26 (4), *cf. infra*, p. 33 *et seq.*

80 *Ibid.*, sec. 26 (1, 2 and 3). *Cf. infra*, p. 91 *et seq.*

81 Debates, 93: 384, 436.

82 Finance Act, 1917, sec. 26 (5). *Cf. infra*, p. 75 *et seq.*

83 *Ibid.*, sec. 26 (6). *Cf. infra*, p. 89.

84 *Ibid.*, sec. 26 (7). *Cf. infra*, p. 79.

85 May 2, 1917. Debates, 93: 386.

Duty already collected on the high earnings of the preceding two years. This repayment would automatically result through the operation of the section of the law requiring the Inland Revenue to make a readjustment of the duty paid in a year when excess-profits were earned whenever in subsequent years the profits fell below the pre-war standard. Consequently the relief section was almost entirely suspended so far as shipping profits were concerned.[86]

Other sections of the Finance Act of 1917 provided relief to those who were subject to both the British and Colonial excess profits taxes,[87] abolished the Munitions Levy and transferred the unfinished business connected with it to the Inland Revenue;[88] permitted the reopening of cases before the Board of Referees under certain restrictions;[89] declared war bonds acceptable in payment of Excess Profits Duty;[90] and established an alternative method of taxing coöperative societies.[91]

1918 Amendments.—The financial results of the 1917 changes were very satisfactory. Whereas an increase of £20,000,000 had been expected from the higher rates, an increase of £40,000,000[92] was actually realized, making the total receipts for the year from this source £220,214,000.[93] For 1918-1919, Mr. Bonar Law estimated that the collections would be £300,000,000 without any further increase in the rate. Such an increase had been urged[94] but the result of such action would, he thought, bring less revenue rather than more.[95] He, therefore, contented himself with suggesting one major amendment to the law—that which subjected to taxation profits arising from the sale of trading stocks, the rate remaining the same.

This amendment, however, marked a fundamental departure from the ordinary British concept of income. As has been pointed out,[96] capital gains are not ordinarily included within the scope

86 Finance Act, 1917, sec. 22. *Cf. infra*, pp. 47-48.

87 *Ibid.*, sec. 23. *Cf. infra*, p. 32.

88 *Ibid.*, sec. 24. *Cf. infra*, p. 7 *et seq.*

89 *Ibid.*, sec. 25. *Cf. infra*, p. 126.

90 *Ibid.*, sec. 34. *Cf. infra*, pp. 111-112.

91 *Ibid.*, *sec.* 26 (8). *Cf. infra*, p. 31.

92 Debates, 105: 699.

93 Financial Statement, 1918-1919, p. 5.

94 *Cf.* Debates, 105: 752.

95 *Ibid.*, 704.

96 *Cf. supra*, p. 12 and *infra*, p. 69 *et seq.*

of the Income Tax or the Excess Profits Duty. It was found, however, that the Duty was being evaded through the device of disposing of trading stocks in bulk or as a part of the assets of the business when it was sold as a going concern.[97] Public attention has been drawn particularly to the loss of duty which had resulted from certain transactions in large stocks of whiskey in Scotland. The amendment was aimed to stop such leaks and provided that "profits arising from the sale . . . otherwise than in the ordinary course of trade of the trading stock . . . belonging to any trade or business shall be deemed to be profits arising from a trade or business."[98] It will be noted that this section is after all, of fairly narrow application, affecting, as it does, merely stock in trade. Sales of any other type of asset are still considered capital transactions and lie outside the scope of the Duty.

The Finance Act of 1918 also provides for an appeal to the Board of Referees in certain cases of dissatisfaction with rates of depreciation[99] and defines the extent of obsolescence deductions.[100]

1919 Amendments.—The receipts from the Duty in 1918-19 fell short of the budget estimate of £300,000,000 by £14,972,000.[101] During this year the Duty alone was responsible for nearly one-third (32.1 per cent) of the total receipts of the Government. The war was now over and the Chancellor felt justified in recommending the reduction in the rate of the Duty from 80 per cent to 40 per cent. Notwithstanding this decrease, the total receipts for the following year were again estimated at £300,000,000, the arrears being large[102] and the 80 per cent rate still applying to portions of accounting periods subject to assessment during 1919. No changes of importance other than the reduction in the rate were made in the statute this year.[103]

97 Debates, 105: 704.

98 Finance Act, 1918, sec. 35 (1). For details *cf. infra*, p. 70 *et seq.* Cases where stocks are disposed of otherwise than by sale, *e.g.* by distribution *in kind*, are adequately covered. Sec. 35 (4). Excess Profits Duty charged upon such profits were declared not to be deductible for purposes of Income Tax. Sec. 31.

99 *Ibid.*, sec. 24 (1).

100 *Ibid.*, sec. 24 (3). *Cf.* also sec. 24 (4) relating to deductions on account of annual value of premises.

101 Financial Statement, 1919-1920, pp. 3, 5.

102 *Cf. infra*, p. 115.

103 For clarifying amendment regarding colonial double taxation, *cf.* Finance Act, 1918, sec. 34, *infra*, Appendix A, V.

1920 Budget Proposals

The yield of the Duty in 1919-20 closely approximated the estimate, amounting in all to £290,045,000.[104] The general expectation was that the tax would be completely abandoned at this date but the Chancellor, Mr. Austen Chamberlain, surprised the country by asking for its continuance for another year and at the increased rate of 60 per cent. £220,000,000 was the budget estimate for the yield of the Duty in 1920-21, in case the rate were increased as suggested.[105] The problem of the future of the tax is discussed elsewhere[106] but at the date of writing[107] the 60 per cent proposal apparently is certain of adoption, the levy on capital which was suggested as an alternative for the increase in the rate having been definitely discarded by the Government. In addition to the increased Excess Profits Duty, the Chancellor proposed a five per cent tax on the profits of corporations. No other amendments or changes are proposed in the Finance Bill as introduced, but during the debates amendments were proposed increasing the statutory percentage applying to new capital from 9 and 11 per cent to 10 and 12 per cent and raising the figures for relief to small businesses from £2000 to £4000.

Summary

The Excess Profits Duty, passed December 23, 1915, as well as its companion measure, the Munitions Levy, passed July 2, 1915, were to a large extent concessions to labor in order to win its support to a program of large production during the war. The measure, however, enlisted public support generally on a variety of grounds so that the demand for its enactment was irresistible.

The Duty was levied on all business profits in excess of a standard which might be either an average of pre-war profits or a percentage of capital invested, whichever favored the taxpayer. The rate has varied, beginning at 50 per cent, rising as high as 80 per cent, dropping back to 40 per cent and, finally, rising once more to 60 per cent.

Aside from these variations in the rates, however, there have been no changes in the statute of fundamental importance. The same principles have held throughout and the amendments have

104 Financial Statement, 1920-21, p. 6.

105 Speech on making the Financial Statement, April 19, 1920, p. 15.

106 *Cf. infra*, p. 161 *et seq.*

107 July 12, 1920.

for the most part affected only details. While we in America used one invested capital standard in 1917, adopted an alternative profits or invested capital standard for 1918 and abandoned the profits standard in 1919, the British have held to their original arrangement, the only important modification being a change of percentages used in establishing the standard based on invested capital. While we changed the application of our statute from extreme broadness to extreme narrowness, the application of the British Duty has remained the same. While we have made sweeping changes in our definition of taxable profits and invested capital, the British have made only minor alterations. This stability has undoubtedly been a factor in the success of the British administration.

In comparison with the American law, the most impressive features of the British statute, aside from its comparative stability, are the remarkable care which is taken to alleviate cases of unusual hardship, the wide scope given to the administrative authorities in making adjustments and the full provision made for appeals to bodies outside the courts of law. These features are fully discussed in later sections.[108]

[108] *Cf. infra*, p. 27 *et seq.* For summary *cf.* p. 139 *et seq.*

PART TWO

INTERPRETATION AND PROCEDURE

PART TWO

INTERPRETATION AND PROCEDURE

Part One of this report[1] describes the development of the statute in broad outline and traces the changes made during the years of operation. The part which follows attempts a more detailed exposition of certain specific topics concerned with the interpretation of the law and its administration. The topics selected for this more ample treatment either contribute to an understanding of the general procedure, or offer suggestions for improvement in our practice.

Although cross-references have been used very freely, it has not been possible to avoid some minor repetitions both as between Part One and this part and as between different topics treated in this part; but as the chief value of this section of the report will be for purposes of reference to specific topics, it is believed that such repetition as exists will prove to be an advantage rather than a disadvantage. The reader who is interested merely in the general aspects of the Duty may well omit Part Two entirely.

Application

Scope of Application.—The British statute applies to "all trades or businesses (whether continuously carried on or not) of any description carried on in the United Kingdom, or owned or carried on in any other place by persons ordinarily resident in the United Kingdom, excepting—

(a) husbandry in the United Kingdom;

(b) offices or employments;

(c) any profession the profits of which are dependent mainly on the personal qualifications of the person by whom the profession is carried on and in which no capital expenditure is required, or only capital expenditure of a comparatively small amount,

but including the business of any person taking commissions in respect of any transactions or services rendered, and of any agent of any description (not being a commercial traveller, or an agent whose remuneration consists wholly of a fixed and definite sum

[1] *Supra*, pp. 3-24.

not depending on the amount of business done or any other contingency)."[2]

The Duty, consequently, while broader in its scope than our present Excess Profits Tax, is more narrow than our 1917 law in that it excludes farmers and professional men.[3] It taxes both corporate and non-corporate business, both private and municipal trading ventures and even coöperative societies. Salaries, professional fees and farmer's profits lie outside its scope.

The application of the Excess Profits Duty is broader than that of Schedule D of the British Income Tax in that the term business is interpreted to include transitory businesses which cannot be said to have *annual* profits.

Husbandry is interpreted to include market gardening and nurserymen, but not cattle dealers, milk sellers or seedsmen.

The line between businesses and professions is found to be difficult to draw. The term *profession*, of course, includes barristers, solicitors, doctors, architects and accountants. But there are many border-line cases. The element of personal qualification is of great importance, the general tendency being to restrict the term to those callings which apply tests for admission into their ranks. Photographers, horse trainers, and producing actors have been ruled out but consulting engineers (not engineering businesses) are included within the definition of professions.

There has not been entire satisfaction with the scope of the Duty. Not only has the attempt to draw a precise line between professions and businesses given rise to difficult cases, but there has been a feeling in some quarters that the whole policy of ex-

[2] Finance (No. 2) Act, 1915, sec. 39.

[3] Although professional men were taxable under our 1917 law, the rate was fixed, by sec. 209, at 8 per cent on the net income over $6000, of any trade or business in which no invested capital or merely a nominal capital was employed by an individual or a partnership. In the case of corporations the exemption was $3000, the rate the same. Our Treasury Department has attempted to exclude as many taxpayers as possible from the benefit of this low rate, adopting in some instances rather far-fetched arguments of capital being employed indirectly (as by enjoyment of credit due to the financial responsibility of the stockholders of a corporation or the members of a partnership). In many such cases the result has been to exclude the taxpayer from sec. 209 of our 1917 law and yet leave him with practically no invested capital and subject to an inordinately high tax—in which cases the tax has often been substantially reduced by granting him "constructive invested capital" under sec. 210 of the law and the regulations adopted to carry that section into effect.

cluding professional earnings was a mistaken one. The many cases of doctors and lawyers who remained at home and increased their incomes above pre-war levels partly because of the absence of their colleagues aroused some indignation.[4] There were others who felt that the exemption of husbandry, which was based purely on administrative grounds,[5] was unjustifiable, particularly in view of the comparatively large profits of this class during the war and their presumably favorable position under the income tax.[6] The inclusion of the coöperative societies within the application of the Duty, when they were exempted from income tax, caused some complaint and furnished the basis for a plan for their special treatment.[7] On the whole, however, the manner in which the application of the act was delimited must be said to have met general approval.[8]

Excess Mineral Rights.—Special provisions of the statute govern its application to certain increases in payments received for the right to work minerals. This Excess Mineral Rights Duty, as it is called, is very much restricted in its application. It is levied only "where the amount payable to any person as rent in respect of the right to work minerals or of any mineral wayleaves (in cases where the right to work the minerals and the mineral wayleaves are not part of the assets of any trade or business)[9] varies according to the price of the minerals, and the amount so payable in respect of any working year ending on any date after the commencement of the present war . . . exceeds the pre-war standard of that rent."[10] The rate is the same as the Excess Profits Duty proper.[11] The pre-war standard is "the

[4] Debates, 93:414; 105:770. Deputation from the Executive Council of the Association of Chambers of Commerce of the United Kingdom to the Chancellor of the Exchequer, April 3, 1918, p. 18.

[5] An official of the Inland Revenue stated bluntly that the Duty from the farmers would not have been worth the labor necessary to gather it.

[6] *Cf.* Debates, 93:388; 105:770.

[7] *Ibid.*, 93:421. *Cf. infra*, p. 30. *Cf.* Deputation from the Association of Chambers of Commerce of the United Kingdom, April 24, 1917, p. 11.

[8] Bankrupt concerns were specifically exempted in 1916 (Finance Act, sec. 56) so long as carried on under the court.

[9] This phrase refers only to the assets of the trade or business of the person receiving the rent for the right to work the minerals. Finance Act, 1916, sec. 46 (2).

[10] Finance (No. 2) Act, 1915, sec. 43 (1).

[11] *Ibid.*; Finance Act, 1916, sec. 46; *Ibid*, 1917, sec. 21; *Ibid.*, 1919, sec. 33; Finance Bill, 1920.

average of any two of the three last pre-war rent values, to be selected by the taxpayer."[12] For further details the reader is referred to the statute itself.[13]

Controlled Establishments.—As has been shown,[14] certain concerns were subjected to a law imposing a Munitions Levy even before the Excess Profits Duty was established. The original excess profits statute of 1915 was couched in general inclusive terms which brought within its scope all establishments described irrespective of whether they were "controlled" or not. The adjustment was left until 1916, the Finance Act of that year specifying that sums actually paid under the Munitions Levy "which appear to the Commissioners to be attributable to the same period and subject matter as that for which Excess Profits Duty is to be paid" might be accepted as payment of the profits tax.[15] Excess Profits Duty payments, on the other hand, could be used to cancel Munition Levy payments. Consequently the charge which applied against the business was either the Munitions Levy or the Excess Profits Duty, whichever was higher. Later the Munitions Levy was abandoned and the concerns brought under the Excess Profits Duty. The Commissioners of Inland Revenue were given the administrative task of winding up the old assessments.[16]

Trading Ventures of Local Authorities.—The British apply the Excess Profits Duty to the results of any industrial or trading ventures undertaken by local governmental authorities. Each venture is separately assessed and each has its own standard, but there is a saving provision to the effect that if the net result of all of the ventures is such that there is a burden upon the local tax rates with respect to them, even for sinking-fund purposes, no Duty shall be charged.[17]

Coöperative Societies.—Although exempt from income tax (on the theory that the members have incomes too small to be subject to tax so that anything collected under Schedule D would have to be repaid), coöperative societies were nevertheless subjected to the Excess Profits Duty on the theory that it is a charge upon

12 Finance (No. 2) Act, 1915, sec. 43 (2).

13 *Infra*, Appendix A, II.

14 *Cf. supra*, p. 5 *et seq.*

15 Finance Act, 1916, sec. 48. *Cf.* Mr. McKenna's exposition. Debates, 81: 1052.

16 *Cf. supra*, p. 7.

17 Finance (No. 2) Act, 1915, Fourth Schedule, Part I, rule 9.

the profits of the enterprise as such, rather than upon the resources of the individual members.[18] In recognition of the peculiarities of these societies, however, special methods of calculating the Duty were provided.[19]

Agents of Foreign Businesses.—The knotty problem of how to arrive at the profits of a selling agency of a foreign business concern is attacked in a section of the Finance Act of 1918.[20] As drawn, it is, strictly speaking, an income tax provision, but it is one which applies to the calculation of profits for the purposes of the Excess Profits Duty as well. The statute provides that "where a non resident person is chargeable to income tax in the name of any branch, manager, agent, factor, or receiver, in respect of any profits or gains arising from the sale of goods or produce manufactured or produced outside of the United Kingdom by the non-resident person, the person in whose name the non-resident person is so chargeable, may . . . apply . . . to have the assessment . . . made or amended on the basis of the profits which might reasonably be expected to have been earned by a merchant or, where the goods are retailed by or on behalf of the manufacturer or producer, by a retailer of the goods sold who had bought from the manufacturer or producer direct, and, upon proof . . . of the amount of the profits on the basis aforesaid, the assessment shall be made or amended accordingly."

For example, an American corporation manufacturing in the United States but selling all its product in England, is taxed in England on the selling profit only. Under our law a British Corporation manufacturing in England and selling all its product here would be taxed on all its profit both from the manufacturing and the selling activities, apparently on the theory that the entire net income of the corporation is from "sources within the United States."[21]

18 Objection to the taxation of these societies was made in the House of Commons by Mr. Clynes, who insisted that it amounted to a tax on workmen. Debates, 93: 421.

19 For details, *cf.* Finance (No. 2) Act, 1915, Fourth Schedule, Part I, rule 10, *infra,* Appendix A, II; Finance Act, 1917, sec. 26 (8), *infra,* Appendix A, IV.

20 Sec. 25.

21 The statute taxes foreign corporations on "income from sources within the United States . . . including all amounts received (although paid under a contract for the sale of goods or otherwise) representing profits on the manufacture and disposition of goods within the United States." Revenue Act of 1918, sec. 233.

Colonial Double Taxation.—Serious difficulties early developed in cases where the same income was chargeable to the excess profits tax of some other country as well as to the British Duty. An arrangement was entered into with New Zealand under which only the higher of the two taxes was imposed and the proceeds allocated between the governments.[22] In the Finance Act of 1917 this procedure was made available, through an Order in Council, to "all His Majesty's possessions."[23]

The extent to which residents of Great Britain shall be relieved of British taxes on both income and profits because of taxes paid in other jurisdictions, either foreign countries or dominions of the British Empire, is a question which has recently aroused much public discussion in England. The Association of Chambers of Commerce of the United Kingdom adopted a resolution in 1919[24] which urged that reciprocal arrangements be made with both the Dominions and the Allies. The text of the resolution read as follows: "That the present system of duplicate payment of taxes on profit of businesses and on incomes of individuals levied by this country, our Dominions and our Allies is unjust and that His Majesty's Government be urged to make arrangements with the Governments of our Dominions and Allies to avoid the duplicate payment of such taxes."

Thus far, however, the British Government has not been willing to go beyond the arrangement described above which is limited to "His Majesty's possessions." Profits taxes paid elsewhere are deductible, it is true, in arriving at taxable profits[25] but the amount of such taxes is not set off against the amount of the Duty payable in England. Our practice which virtually permits an American taxpayer to present a foreign tax receipt in payment of his domestic tax obligation is considered unduly liberal in Great Britain.

The general philosophy lying back of the British practice on this point is plainly stated in the Report[26] of the Royal Commis-

22 Debates, 93: 435.

23 Finance Act, 1917, sec. 23. This phrase was later defined to include all territory under His Majesty's protection. Finance Act, 1917, sec. 34. The relief was not to be less than that afforded under other sections of the Act.

24 Annual Meeting, April 15-16, 1919, p. 159. *Cf.*, also, Deputation from this Association to the Chancellor of the Exchequer, June 15, 1917, pp. 66-7.

25 *Cf. infra,* pp. 44-45.

26 Cmd. 615, p. 18 *et seq.*

sion on the Income Tax, just published. It is the conception of the British Empire as an economic entity within which capital should flow freely from point to point and from which capital should not venture forth except when offered a return after foreign taxes have been paid at least equal to that which might have been earned had the capital been used within the Empire.

The theory of our law is that an American company with a foreign branch should not pay more in total taxes than a precisely similar American company without a foreign branch. Consequently we say, in effect, "Pay whatever profits taxes the foreign country demands and we shall accept your receipts in payment of your home tax liability calculated on the basis of your total business, both home and foreign." Such a course appears to the British to leave too much to the voluntary action of the foreign country and really amounts to a subsidy for foreign trade at the expense of the home concerns. For, says the Income Tax Commission, the argument "that one British resident had contributed to the revenue of a foreign state while the other had not done so . . . would certainly not carry conviction to the ordinary taxpayer who would be called upon to make good the tax lost by any relief granted, unless the arrangement were based on a principle of reciprocity or national policy."[27] Such a principle is not present they feel except in the case of British Dominions.

The Initial Exemption.—The British Duty as passed in 1915 applied to profits which exceeded the pre-war standard by more than £200.[28] The 1917 American law applied to profits in excess of $3000 in the case of all domestic corporations, and to profits in excess of $6000 in the case of all resident individuals and domestic partnerships. If the net incomes exceeded these amounts, the excess, over the standard, was taxed no matter how small. The 1918 American law specifically exempted all corporations[29] with less than $3000 net income and included $3000 as a part of both the invested capital and profits standards, with the result that no American corporation with a net income of less than $3000 is subject to the tax. This makes the American initial exemption distinctly more liberal than the British exemption of 1915. How-

27 Cmd. 615, p. 18.

28 Finance (No. 2) Act, 1915, sec. 38.

29 Individuals and partnerships were no longer taxed.

ever, when, in 1917, the British raised their rate to 80 per cent they inserted a clever but complicated provision affecting the exemption which brought substantial relief to the small profitable enterprise with a low pre-war standard.[30] The text of the section is given in full in Appendix A, IV, to which the reader is referred for the precise details and limits, but the operation of the section may be illustrated by the two following examples—

Case One—Pre-war standard £400; profits, £1000; initial exemption equals £200 (the usual allowance) plus one-fifth of £1000 (the amount by which the profits of £1000 are less than £2000) or £400 in all.

Case Two—Pre-war standard £600 (in excess of £500); profits £1000; initial exemption equals £200 (the usual allowance) plus one-fifth of £1000 (the amount by which the profits of £1000 are less than £2000) minus £100 (the amount by which the pre-war standard of £600 exceeds £500) or £300 in all.

Since the additional initial exemption is strictly limited to concerns with profits of less than £2000 and since the exemption is shaded off sharply whenever the pre-war standard exceeds £500, the relief, while very material in the small cases, automatically shuts down as the cases become large. The maximum relief which can be secured under this provision is £500, which would accrue to the enterprise with earnings of £500 and a pre-war standard not in excess of this amount. This sum is slightly less than the American exemption of $3000.

One of the proposals which will apparently be adopted with the increase in rate from 40 to 60 per cent in 1920 is to raise the figure for concerns subject to this relief from £2000 to £4000.

Rates and Dates of Application.—The 1915 act imposed a tax of 50 per cent upon profits arising during accounting periods which ended after August 4, 1914[31] and before July 1, 1915. The first date coincides with the beginning of the war. The second date was made to precede the application of the Munitions Levy[32] in order to create the opportunity at that date of dovetailing one act into the other in the ensuing year.[33] This dove-

[30] Finance Act, 1917, sec. 26 (4). *Cf.* our 1918 law, sec. 302.

[31] The date suggested at the time of the introduction of the measure was September 1, 1914. Debates, 74:351.

[32] *Cf. supra*, p. 6.

[33] *Ibid.*, 352. For the application of the Excess Profits Duty to Controlled Establishments, *cf. supra*, p. 30.

tailing operation was accomplished by provisions included in the Finance Act of 1916,[34] and the two taxes were finally merged in 1917.[35] These 1916 amendments extended the application of the act from July 1, 1915 to August 1, 1917, making the increased rate of 60 per cent[36] apply to profits "arising in any accounting period beginning after the expiration of a year from the commencement of the first accounting period,"[37] to which the duty was applicable. For example, a concern which was taxed 50 per cent of its excess profits for its fiscal year ending August 30, 1914, was now subjected to a 60 per cent rate for its year ending on the same date in 1915, whereas a concern with a fiscal year ending on July 30, 1915, was taxed 50 per cent, the 60 per cent rate not applying until the end of the next fiscal year, July 30 1916.

The British practice on this point during the early part of the imposition of the tax was in contrast with our own, which, with slight exceptions, insists that all profits arising in a given year shall be subject to the same rate irrespective of the date of the closing of accounting periods. In 1917 the British changed their practice sharply. In that year, when the application of the act was extended to accounting periods ending before August 1, 1918, the rate was pushed to the maximum point reached, 80 per cent, and the Government was asked that the increase not be retrospective.[38] Announcement had been made during the last days of 1916 that the rate would be increased,[39] and January 1, 1917, was seized upon as the specific date from which the new rates were to be effective. Profits arising in accounting periods which began before this date and extended over it were to be apportioned and the higher rate applied to the part falling to 1917.[40] From this time forward the rates applied uniformly to all profits arising between given dates.

This ended the anomalous situation in which two concerns otherwise similar paid different taxes because of different opening or closing dates in their accounting periods. However, it did nothing to correct the injustice which had been done to those

34 Sec. 45. *Cf. supra*, p. 7.
35 Finance Act, 1917, sec. 24.
36 *Cf. infra*, p. 37.
37 Sec. 45 (1). *Cf.* Mr. McKenna's explanation. Debates, 81: 1052.
38 *Ibid.*, 93: 382.
39 *Ibid.*, 93: 383.
40 Finance Act, 1917, sec. 20.

concerns which had been subjected to the tax many months earlier than other concerns because they happened to have accounting periods ending on dates falling sooner after August 4, 1914. The imposition of the tax on all accounting periods ending after that date had made the tax heavily retroactive.[41] The question is of considerable importance because, according to an estimate of the Inland Revenue authorities, not more than fifty per cent of the businesses in Great Britain end their accounting periods with the calendar year. It has been the intention so to adjust the tax at the end of the period of its imposition that no injustice will be done, but how the problem is to be solved in case the tax is continued indefinitely[42] is not clear. The American practice, although it has involved some complications and annoyances, has left no such heritage of difficulty for those whose duty it will be to wind up the tax.

The Finance Act of 1918 continued the Duty to August 1, 1919 at the 80 per cent rate[43] but before the passage of the Finance Act of 1919 the end of the war had come and the rate was reduced to 40 per cent on all profits arising after January 1, 1919.[44] The Duty was to apply at this rate to all accounting periods ending before August 5, 1920,[45] this date being chosen in order to make easier the termination of the tax at the end of the year. It will be recalled that it was originally imposed upon all accounting periods terminating after August 4, 1914.

The budget proposals of 1920 will make the rate 60 per cent for profits arising in 1920 and 40 per cent thereafter.

The rates and dates of application are summarized in the following statement:

[41] The tax was considered a temporary one and the general theory back of it was that it should apply to heavy profits realized and made available during the war rather than to profits specifically caused by the war. Amendments were proposed while the original bill was under consideration which aimed to eliminate this retrospective feature but they were defeated.

[42] *Cf. infra*, p. 161 *et seq.*

[43] Sec. 34.

[44] Sec. 2.

[45] Sec. 1.

SUMMARY OF RATES OF EXCESS PROFITS DUTY

In case of businesses existing on August 4, 1914		*In the case of businesses commenced after August 4, 1914*	
For first twelve months of the taxable period[46]	50%	For any accounting period ending on or before Aug. 4, 1915[47]. . . .	50%
From the end of the first twelve months to Dec. 31, 1916	60%	For the subsequent period ending Dec. 31, 1916.	60%

From Jan. 1 1917 to Dec. 31, 1918. . . . . .80%[48]
From Jan. 1, 1919 to Dec. 31, 1919. . . . . .40%
From Jan. 1, 1920 to Dec. 31, 1920. . . . . .60%[49]
From Jan. 1, 1921 to Dec. 31, 1921. . . . . .40%[49]

The Accounting Period.- As has been noted, the accounting period has assumed a larger significance in British procedure than in American because of the fact that the British at first imposed their tax upon the basis of the accounting periods ending after a given date instead of upon the profits arising after a given date.[50] Their general practice with regard to the recognition of accounting periods also differs in certain respects from our own. Whereas in this country the accounting period must be a period of twelve months except in the unusual cases of businesses just beginning or closing operations or of changes in fiscal years, the British practice is to recognize any period for which the accounts have been made up,[51] even though it be less than a year, and consequently the Duty is calculated and paid on periods often as

46 The first twelve months of the taxable period of a taxpayer began with the beginning of the first accounting period which closed after Aug. 4, 1914. Such accounting period may have been any length of time from one month, or less, to one year, or more.

47 The first rate to be applied to a new business commencing after Aug. 4, 1915, was 60 per cent unless the accounting period of the taxpayer was shorter than twelve months.

48 Dec. 31, 1916 marks the first point of time from which the same rate of tax applied to all taxpayers regardless of the ending of their accounting periods. In the case of accounting periods beginning before and ending after this date, the net income was apportioned on a time basis and the 60 per cent and 80 per cent rates applied to the respective amounts allocated to the period before and the period after such date.

49 Rates proposed by the Chancellor of the Exchequer in 1920.

50 *Cf. supra*, p. 34 *et seq.*

51 Finance (No. 2) Act, 1915, sec. 38 (*2*).

short as three months. Where the accounts have not been made up for any definite period, or for the usual period or for more than twelve months, the Commissioners of Inland Revenue are empowered to establish the period which must be not less than six or more than twelve months. They have power, moreover, to take any period for which accounts have been "actually made up for any interim or other purpose" notwithstanding the fact that the articles of the firm require the accounts to be made up for some other period or the fact that the accounts are not issued.[52] In some cases assessments are regularly made on the basis of accounting periods of three months.

The general conception of the accounting period under British Excess Profits Duty procedure is one which draws a much less definite line between the successive periods than ours in this country. The results of the trading in one period are permitted to exert a much greater influence upon the preceding and succeeding periods than they do here. Indeed there is a marked disposition, evident particularly in the provision for losses, to view the entire period of the war as a whole and to provide adjustments which will take into account the final position of the trader after passing through the complete cycle.[53]

Determination of Profits

In determining what profits shall be subject to the Duty, the British statute utilizes the data collected for income tax purposes. However, as has been already pointed out, various modifications are necessary to fit this figure to the needs of the Duty. The general effect of these modifications is to allocate to each accounting period the true profits of a trading concern. Most of the modifications consist of deductions, such as that eliminating the income from investments. A few, however, increase the tax base as it stands for income tax purposes such as that subjecting profits from the sale of trading assets even when sold outside the ordinary course of trade. Others require a more careful allocation to particular years of items which for income tax may be taken in other periods.

A full treatment of the problem for determining taxable profits would involve a complete study of the British income tax procedure. All that is here attempted is a consideration of the par-

[52] Finance Act, 1916, sec. 51.

[53] *Cf. infra*, p. 45 *et seq.*

ticular problems directly occasioned by the imposition of the Excess Profits Duty.

General Income-Tax Principles Applied.—The Act declares that "The profits arising from any trade or business . . . shall be separately determined . . ., but shall be so determined on the same principles as the profits and gains of the trade or business are or would be determined for the purpose of the income tax, subject to the modifications set out in . . . this Act."[54]

Without the prescription that profits must be "separately determined," the Commissioners would not have been able to make the adjustments in the income of both the current accounting periods and the pre-war years which are often necessary to achieve justice, for greater precision in the distribution of such items as renewals and losses is needed for the Duty than is considered necessary for income tax purposes.

Actual Profits—not Average Profits Utilized.—In the administration of certain portions of the income tax, especially under Schedule D which includes business profits, the British made extensive use of the device of averaging the assessments of several previous years to arrive at the assessment for the given year. The Excess Profits Duty utilizes no such device. It is levied upon "actual profits arising in the accounting period." The Act specifically states, moreover, that "the principle of computing profits by reference to any other year or an average of years shall not be followed."[55]

The harshness which sometimes results in this country in the absence of some such arrangement as the averaging device is sufficiently avoided in the British Duty by a variety of adjustments, such as rebates for years of depression, exemption of appreciations of asset values, etc.[56]

Artificial Transactions to Reduce Profits Forbidden.—The following general authority is given to the commissioners of Inland Revenue to refuse to sanction deductions which appear to have been "rigged":

" . . . no deduction shall be allowed in respect of any transaction or operation of any nature, where it appears, or to the extent to which it appears, that the transaction or operation has arti-

[54] Finance (No. 2) Act, 1915, sec 40 (1).
[55] *Ibid.*, Fourth Schedule, Part I, rule 1.
[56] *Cf. infra*, pp. 45-48, 69-73.

ficially reduced the amount to be taken as the amount of the profits of the trade or business for the purposes of this Act."[57]

Consolidated Returns.—Our 1917 law contained a vague statement[58] upon which the Treasury apparently relied in establishing regulations calling for consolidated returns in cases where they were needed to secure substantial justice. Our 1918 Revenue Act specifically demands consolidated returns whenever one corporation owns "substantially all of the stock" of another or if "substantially all of the stock of two or more corporations" is owned by "the same interests."[59]

The British practice is somewhat more narrow. In the original statute combined treatment under the Excess Profits Duty was prescribed whenever any company "owns the whole of the ordinary capital of any other company" or "so much of that capital as under the general law a single shareholder can legally own."[60] The object of this section was primarily one of relief. Without it, losses or diminished profits of one of a group of concerns might not be available for the reduction of the liability of the entire group.

Apportionnent of Income from Long-Term Contracts.—Our Treasury regulations permit[61] income from long-term contracts to be tax when actually received or to be apportioned over the life of the contract in proportion to the percentage of completion, which, in turn, is interpreted to mean in proportion to the expenditure of money for expenses in connection with the undertaking. The British statute prescribes that in such cases the usual procedure shall be to attribute to each accounting period such proportion of the profits "as shall be properly attributable to such accounting periods respectively, having regard to the extent to which the contract was performed in such periods."[62] In applying this rule the officials have taken care to insist that, if the apportionment plan is adopted for the current accounting period, it is adopted also for the pre-war period.

57 Finance (No. 2) Act, 1915, Fourth Schedule, Part I, Rule 5.

58 Sec. 201.

59 Sec. 240.

60 Finance (No. 2) Act, 1915, Fourth Schedule, Part I, rule 6. This section was not to apply in the case of certain shipping transactions. *Cf.* Finance Act, 1916, sec. 47 (e), *infra*, Appendix A, III.

61 Regulations 45, Art. 36.

62 Finance (No. 2) Act, 1915, Fourth Schedule, Part I, rule 11.

The British plan of allocation is more liberal than ours under which the income is distributed in proportion to the expenses incurred in each year. Our method has arbitrarily allocated profits on long-term contracts to the years in which our tax rates were highest, since the cost of labor and material were extremely high in the same years.

Modifications Due to Collection-at-Source.—The major portion of the British income tax is collected at the source. Under this system business concerns are refused permission to subtract from their taxable income certain items such as interest, rent, etc., which would otherwise be allowable deductions, the income tax rate being applied to these items before they are passed on to the recipients. On the other hand they do not have to include for income tax purposes profits or gains arising from the use of real estate in the business because such profits are cared for by a special schedule of the income tax. For purpose of the excess profits duty, however, the actual expenses are deductible and actual income must be included. Hence, the statute provided that "the principle of the Income Tax Acts under which deductions are not allowed for interest on money borrowed for the purpose of the trade or business, or for rent, or royalties, or for other payments, income tax on which is collected at the source (not being payments of dividends or payments for the distribution of profits), and under which profits or gains arising from lands, tenements, or hereditaments forming part of the assets of the trade or business are excluded shall not be followed."[63]

The necessity for such adjustments does not exist under the American law.

Deduction of Income from Investments.—The British tax is more strictly a trading profits tax than ours. In this country income from investments is or is not subject to the excess profits tax depending upon whether the recipient of such income is subject to the tax. If the recipient is a corporation, it is taxable; if not, it is not taxable, except that dividends received by one corporation from another taxable corporation, are, under our law entirely excluded for purposes of both income and profits taxes. In Great Britain income from investments is not subject to the Excess Profits Duty even when received by a business concern

[63] Finance (No. 2) Act, 1915, Fourth Schedule, Part I, rule 2. *Cf.*, also, Finance Act, 1918, sec. 24 (4). *infra*, Appendix A, V.

which is subject to the Duty with this single exception, that it is taken into account in the case of life insurance companies[64] and concerns where "the principal business consists of the making of investments,"[65] But taking this into account does not necessarily mean that the income from the investments is taxed, for under the British income tax laws a life insurance company is subject to taxation either on the interest on its investments (less the expenses of management, including commissions) or on the amount of its profits (including amounts alloted to policy holders). The scope of this exception is consequently very narrow. As a matter of fact, moreover, life insurance companies have not made profits high enough thus far to render them liable to the Duty.

Banks are not included within the stated exception. When firms which are included within this class receive dividends from other concerns which have already been subjected to Excess Profits Duty, an adjustment is provided for in the following general terms: "Such deduction or addition shall be made in computing the profits as will make proper allowance for that payment. . . ."[66]

Modifications Due to Variations in Capital Values.—The extreme lengths to which the British were willing to go to prevent the burden from bearing too heavily is illustrated by the section which specified that, in cases of concerns which fall within the class described above whose income from investments is subject to Duty, "any variation in the value of any of those investments which appears to the Commissioners of Inland Revenue not to be due to a variation in profits shall also be taken into account."[67] Through the authority granted by this section, the Commissioners have been able to grant deductions from investment income in cases where, owing to the diminution in the general purchasing power of money, there has been a decline in the market standing of the securities from which the income is derived. The phrase "not to be due to a variation in profits" was intended to permit such a deduction and the word "profits" to exclude deductions because of either diminished *yield* or diminished *reserves*. Moreover, it should be especially noted that, to obtain this relief, it was

64 It should be noted that insurance companies other than life, do not become taxable on their income from investments.

65 Finance (No. 2) Act, 1915, Fourth Schedule, Part I, rule 8.

66 *Ibid.*, rule 8 (b).

67 *Ibid.*, rule 8 (a).

not necessary that the securities be sold. The section has not been applied in such a manner as to subject to the Duty appreciations in the market standing of securities, for to do so would, according to the British concept of income, amount to double taxation of a single source of profit.

Remuneration of Managers and Directors.—When the British passed their law they were fully alive to the possibility of evasion by the distribution of profits in the guise of salaries and director's fees, a danger particularly acute in the case of concerns owned and managed by the same persons. In America increases in compensation of corporation officers were closely scrutinized and, under the 1917 law, in order to put all business organizations on the same basis, partnerships and individuals conducting businesses, in whose accounts no salary deductions had been made for managing owners, were permitted to subtract from their profits before the tax was applied sums equal to the customary salaries paid by concerns generally for similar service.

The British, however, pursued a different policy. They declined to deduct as business expenses any payments made to owners in the case of individual concerns and partnerships and included a section in the 1915 Act[68] which flatly stated that in the absence of special action by the Commissioners of Inland Revenue[69] deductions for "the remuneration of directors, managers, and persons in the management of the trade of business" should not "exceed the sums allowed for those purposes in the last pre-war trade year." Moreover the Inland Revenue officers discovered, by 1916, that this provision did not cover adequately the cases of concerns which were not in existence before the war or which, if in existence, elected to use the percentage standard in such a way as to cover the introduction of deductions for swollen salaries. Consequently they secured a retroactive provision[70] which permits them under certain conditions[71] to treat corporations whose directors have a controlling interest, as partnerships to the extent that they may disallow as deductions all

[68] Fourth Schedule, ¶ 5.

[69] The commissioners were given power to act "under special circumstances" or when the remuneration "depends on the profits of the trade or business."

[70] Finance Act, 1916, sec. 49 (1)

[71] The conditions were that the case must be one in which the pre-war standard is taken as the percentage standard or is calculated by reference to the statutory percentage.

remuneration of directors but in this case the standard is calculated at the higher statutory rate ordinarily available only to partnerships.

At the same time a concern which was forbidden to deduct certain remuneration as excessive was given the specific right to recover from the director or manager who received the excessive payment the amount of Duty it had been called upon to pay in respect of his excessive remuneration.[72] This had a double effect: (1) It became a matter of indifference to most concerns whether their payments in remuneration for services were disallowed or not and (2) it caused the Excess Profits Duty to fall upon the fortunate persons who chanced to have pre-war contracts under the terms of which they received remuneration in the form of a percentage of profits. In practice the British Treasury Department allowed an increase of not exceeding £2000 generally to go unchallenged under this provision.

If an employee is not a manager or director the restrictions described above do not apply, even though he have a profit-sharing agreement which absorbs a substantial part of the earnings of the concern. The Inland Revenue authorities state, however, that such cases are very infrequent.

The general testimony is that the provisions regarding remuneration have operated successfully and that there has been little evasion of the Duty in this direction.

Deduction of Income and Profits Taxes.—As in our law the British statute applies the Excess Profits Duty to the net income of the business before any deduction has been made for either income or profits taxes imposed by the national government. The Duty is first calculated and the amount due the Treasury is then deducted from (or "credited," in the phraseology of our law) the income subject to the income tax rates.[73] However, any sum

[72] Finance Act, 1916, sec 49 (2). For the application of this principle to the Munitions Levy, *cf. ibid.*, 1917, sec. 24 (4). In the absence of special directions of the Commissioners such amounts recovered were to be treated as Excess Profits Duty paid by the director not the concern. This is of importance in connection with the income tax liability of the director.

[73] Finance (No. 2) Act, 1915, sec. 35; Fourth Schedule, Part I, rule 4. Munitions Levy payments are likewise deductible. Finance Act, 1916, sec. 53. Profits arising from the sale of trading stocks were subjected to the Excess Profits Duty in 1918 (*Ibid.*, 1918, sec. 35. *Cf. infra*, p. 000) but they were not subjected to the income tax. Hence the law was changed so as to forbid the deduction of Excess Profits Duty on such profits in calculating the profits for income tax purposes. *Ibid.*, 1918, sec. 31.

paid as a profits tax in a country outside the British Empire is deductible from the profits.[74] In this country under a liberal provision of the 1918 law both income and profits taxes paid to foreign countries may be offset against the local tax itself.[75] Special arrangements somewhat similar to those in the American law are made to cover the case of Britishers subject to certain colonial excess profits tax as well as to the Duty in England.[76]

Losses—General.—The British make much more liberal provision for losses than we do in this country. Not only do they permit certain deductions from current profits to restore pre-war losses but they even permit deductions from profits of previous years to restore a normal rate of return in case that is impaired by trading in current or subsequent years. Capital losses are not deducted, but capital gains are not taxed. Bad debts may be written off through the device of periodical evaluation. Inventory losses are guaged through the application of broad principles which permit the use of the "base stock" method in certain cases Depreciation, including obsolescence and amortization are provided for on a basis which insures full eventual provision for losses due to the war.[77] The British conception of the accounting period[78] permits to a much greater extent than ours the charging back of losses against the profits of previous trading.

Deductions from Current Profits to Restore Pre-War Losses.—A provision which has no counterpart in our tax is that which allows a deduction to be made from the profit of the current accounting period to compensate for a net loss suffered as the result of the operations of the three last pre-war trade years.[79] The importance of this provision as a relief to the harshness of the Duty is self-evident.

[74] Finance (No. 2) Act, 1915, Fourth Schedule Part I, rule 4.

[75] Revenue Law of 1918, secs. 222, 238. Curiously enough this provision has been resented by some of the British as an indirect hidden bonus to our foreign trade.

[76] *Cf. supra*, pp. 32-33.

[77] For losses on municipal trading ventures made good from local tax collections, *cf. supra*, p. 30.

[78] *Cf. supra*, pp. 37-38.

[79] Finance (No. 2) Act, 1915, Fourth Schedule, Part I, rule 7. For the application of this section to the case of sale of trading stocks otherwise than in the ordinary cour e of trade, *cf.* Finance Act, 1918, sec. 35 (2) (b), *infra*, Appendix A, V.

To secure this relief the profits must be actually applied to *the extinction of the loss. Under the law as passed in 1915, it was further necessary that the percentage standard be the one used if the deductions were to be claimed. However, an amendment in 1916*[80] permits such deductions even though the profits standard is used, provided the capital account shows a debit balance.[81]

Set-off and Repayment for Bad Years.—The American statute has adhered very closely to the conception of *annual* gain. Each twelve-month period has been forced to stand by itself, a heavy profit being taxed in the year received, taxed, too, at progressive rates and no adjustment permitted because of a heavy loss occurring perhaps the following year. Minor exceptions to this statement are the special relief provisions of the Revenue Act of 1918 which permitted net losses for the year 1919 to be charged back to 1918 and forward to 1919 if the taxable year chanced to begin between certain dates[82] and which permitted rebates in the case of inventory shrinkages under certain narrowly-defined and even more narrowly-administered restrictions.[83] In contrast with this, the British from the very beginning practically ignored for this purpose the arbitrary closing dates of accounting periods and freely allowed the rebate of Excess Profits Duty collected in time of prosperity whenever such periods were followed by depressions. Moreover, it was not merely in cases of actual losses that rebates were allowed. Whenever the profits of the concern dropped even below the pre-war standard, enough of the excess profits, previously taxed, to restore the deficit was released from assessment and the tax on that portion rebated. The general theory of the British practice on this point was, then, that the business was a continuing operation and in order to be subject to special profits taxes must show an excess profit for the entire period of its operations subsequent to the imposition of the tax.[84] But

80 Finance Act, 1916, sec. 50.

81 It might, of course, be desirable to use a profits standard even when the net result of the three-year period showed a loss, for the loss of a single year might, in a particular case, be sufficient to blot out handsome profits in the two other years.

82 Sec. 204. This was available for purposes of both income and excess profits taxes.

83 Sec. 214 (a-12) and 234 (a-14).

84 The set-off for deficiency is calculated by applying to the amount of the deficiency the rate in force when it occurred. With rising rates cases arose where Duty was payable even though there was a net loss on the oper-

not even content with this, losses during years preceding the imposition of the tax or abnormally low earnings during such years were also made the basis for the extension of special relief.[85]

The exact language of the statute governing the set-off and repayment for years of depression is as follows:—

"Where a person proves that in any accounting period, which ended after the fourth day of August, nineteen hundred and fourteen his profits have not reached the point which involves liability to Excess Profits Duty, or that he has sustained a loss in his trade or business, he shall be entitled to repayment of such amount paid by him as Excess Profits Duty in respect of any previous accounting period, or to set off against any Excess Profits Duty payable by him in respect of any succeeding accounting period, such an amount as will make the total amount of Excess Profits Duty paid by him during the whole period accord with his profits or losses during that period."

The importance of this provision in eliminating friction and discontent on the part of those subject to the Duty can scarcely be overestimated. Its presence in the British statute goes so far to alleviate the harshness of the levy that any comparisons with the American law which do not take it into account are obviously worthless.

The interpretation of this section is so broad as to make its value to the taxpayer even greater than would appear at first glance. Thus when a person is subject to Excess Profits Duty with respect to two separate businesses, he may set off a deficiency below the pre-war standard in one business against any excess profits he may have in the other. Deficiencies in the case of a partnership may be apportioned for the purposes of this set-off.

In the case of shipping companies it was found necessary to restrict to some extent the relief afforded by this section. Thus, after January 1, 1917, the provision was not available to such companies, except in cases where there was an actual loss or where the profits did not equal the mark established by the percentage standard, in which case a repayment was made which restored enough profit to bring the income up to the percentage standard.[87] The reason for this provision was the conviction on the

ations of the entire period. In such cases no Duty was collected, and the case held in abeyance pending a final adjustment. In no case is Duty collected in excess of the net excess profits realized. Statutory authority for this practice has not yet been given, however.

85 *Cf. infra,* Appendix A, II.

86 Finance (No. 2) Act, 1915, sec. 38 (?).

87 Finance Act, 1917, sec. 22.

part of the Government that the shipping industry had made inordinately large profits.[88]

Depreciation.—The British have been slow to recognize in their income tax procedure the importance of full depreciation allowances. Although their present income tax was established in 1842, it was not until 1878 that Parliament authorized any deductions at all for this purpose and even yet allowances are restricted to traders and are ordinarily limited to machinery and plant. However, the pressure of conditions of operation under the stress of war and the heavy rates of income and profits taxes have worked a revolution in the British practice on this point. At the present time the allowances for purposes of the Excess Profits Duty are liberal and complete, although certain of them are available only upon appeal. Ordinary depreciation of plant and machinery is given under general rules as a matter of course. Extraordinary depreciation and obsolescence is cared for under a special section of the law (Section 40).[89]

Ordinary Depreciation of Plant and Machinery.—The original Excess Profits Duty statute contains this comprehensive provision:

"Deductions for wear and tear or for any expenditure of a capital nature for renewals, or for the development of the trade or business or otherwise in respect of the trade or business, shall not be allowed except such as may be allowed under the Income Tax Acts, and if allowed shall be only of such amount as appears to the Commissioners of Inland Revenue to be reasonably and properly attributable to the year or accounting period."[90]

This limits its deductions to those depreciation allowances permitted for income tax,[91] but the section must be read in connec-

88 Debates, 93:387. *Cf. supra*, p. 20-21. For a restriction upon the application of the section to Industrial and Provident Societies *cf.* Finance Act, 1917, sec. 26 (8), *infra*, Appendix A, IV.

In 1918, when profits arising from the sale of trading stocks other than in the ordinary course of business were brought to account for purposes of the Excess Profits Duty, it was arranged that this relief section should have effect as if the profits arising from the sale "had been made by the owner of the business immediately before the appointment of the liquidator," etc. *Ibid.*, 1918, sec. 35 (b).

89 The Royal Commission on the Income Tax recommends the extension of these allowances to other than traders. Cmd. 615, p. 48 *et seq.*

90 Finance (No. 2) Act, 1915, Fourth Schedule, Part I, rule 3.

91 It should be noted, however, that the phrase reads "such as *may* be allowed under the Income Tax Acts." This is not interpreted to mean what *have*

tion with another (Sec. 40 (3)) which permits special treatment in special cases.[92] However, the mere fact that an allowance has been made for income tax is not enough to insure its deduction *in that particular year* for purposes of the Duty. Under the Income Tax Law no objection is usually made to variations in the amount expended for renewals and repairs in any one year, as it has been considered immaterial in the long run whether or not such renewals were chargeable in one year or over a period of years. However, for the purpose of the excess profits tax the time of charging the renewal is important, and the Board of Inland Revenue insists upon adjustments. For example, a restriction is placed upon the amount which might be expended on renewals during the period of the excess profits tax. Thus, if an asset is renewed once in twenty years and the whole expenditure is allowed for income tax when incurred, an adjustment is necessary in order to obtain a proper comparison of the earnings of the pre-war period with the earnings of the taxable period. Otherwise the result might show an artificially low pre-war earning or an artificially low profit during the war period. In cases in which a special claim is made that the rate of depreciation which has been accepted for income tax purposes has been inadequate and such claim is admitted, the pre-war income is also adjusted according to the new rate of depreciation in order to provide a proper basis of comparison. But in other cases where the rate of depreciation has been adequate in the past but is considered inadequate in the year of taxation, greater allowance may be granted in that year without readjustment of the pre-war allowance.

Ordinarily depreciation allowances under the Income Tax are limited to plant and machinery. Consequently if depreciation is desired for other items it is necessary to proceed by way of an appeal under section 40 (3).[93]

The ordinary depreciation rates allowed are much more highly standardized in Great Britain than they are in this country. Here the initial determination of the precise rate is left entirely to the taxpayer, only the most general statements being given

been allowed. *E.g.*, an asset which depreciates more rapidly at first than later may be allowed a varying depreciation rate for Excess Profits Duty without disturbing the uniform rate used in the Income Tax.

92 *Cf. infra*, p. 50 *et seq.*

93 *Cf. infra*, p. 50 *et seq.*

for his guidance in the Treasury regulations. ***He is subject to*** correction, of course, if upon subsequent audit his deductions appear exorbitant. *What is considered exorbitant by the auditors* has not been reduced to specific terms. It is difficult to do this, but something could be accomplished in establishing rates for ordinary conditions if elasticity is provided for special cases. Great unevenness as between essentially similar concerns now inevitably results.

In Great Britain they have proceeded so far as to arrive at general rates of depreciation for classes of trade or business through agreements between the Inland Revenue and the trade itself. In 1918 a White Paper was issued[94] containing the agreements arrived at before that date. This is reproduced below. There have been a number of agreed rates established since.

The procedure of establishing general depreciation rates for classes of trade or business was elaborated and formalized by the passage of an amendment to the income tax in 1918. This legislation provided for a reference to the Board of Referees, hitherto used exclusively for Excess Profits Duty purposes, of applications "made by or on behalf of any considerable number of persons engaged in any class of trade or business" for alterations in any deduction for wear and tear. In other words, the arbitration principle is invoked to assist in the establishment of these general rates for ordinary depreciation and deadlocks between the Inland Revenue and the classes of taxpayers are thus avoided. This power of appeal has not yet been utilized.[95]

Depreciation allowances are originally passed upon by the local surveyors who settle all but the most difficult cases and who operate under standing directions to proceed in a liberal manner in dealing with the taxpayer.

Exceptional Depreciation.—Great elasticity was introduced by Section 40 (3) of the Act which vested in the Commissioners of Inland Revenue authority to approve taxpayers' petitions for relief.[96] Such petitions might be presented when, among other grounds, there was loss due "to the postponement or suspension, as a consequence of the present war, of renewals or repairs, or to

[94] Cmd. 9134.

[95] Finance Act, 1918, sec. 24 (1). Sec. 24 (3) of this act merely gave statutory sanction to ordinary income tax practice with regard to depreciation.

[96] *Cf. infra*, p. 117 *et seq.*

SCHEDULE OF AGREED RATES OF DEPRECIATION

Industry, &c.	Rate per cent	Prime Cost or Written-down Value.	Nature of Plant.
Electric Light Undertakings.	3	Written-down value	Cables.
	5	" "	Plant and machinery.
Flax Spinning and Linen Weaving (Ireland).	7½	Written-down value	Machinery and plant (except accessory plant such as pirns, pirn cages, spools, belting, driving ropes, damask cards, designs, patterns, models, furniture and fixtures).
Flour Milling.	5	Written-down value	Engines, boilers and main shafting.
	7½	" "	Other machinery.
Gas Undertakings other than those owned by municipal or other public authorities.	3	Written-down value	Gasholders.
	10	" "	Meters, cookers and gas fires.
Motor Omnibuses[1]	20	Written-down value	Motor omnibuses.
Paper Mills.	5	" "	Machinery working day only.
	7½	" "	" " " and night
Printing.	5	Written-down value	Engines, boilers and shafting.
	7½	" "	Printing and binding machines
	10	" "	Type.
Railway Wagons.[2]	5	Written-down value	Railway wagons.
Shipping.[3]	4	Prime cost	Steamships.
		" "	Sailing vessels.
Steel Manufacturers.[4]	15	Written-down value	Machinery and plant used in the manufacture of steel.
Timber Merchants, Saw Millers, and Manufacturers of Timber Goods.	5	Written-down value	Engines, boilers, and main shafting.
	7½	" "	General saw-milling plant and machinery.
	20	" "	Traction engines, tractors, motorcars, and haulage plant.
Tramways.[5]	—	—	Permanent way.
	3	Written-down value	Cables.
	7	" "	Cars and other rolling stock.
		" "	General plant and machinery, including standards, brackets, and work-shop tools.

[1] The rate of 20 per cent is to be re-considered at the expiration of four years commencing with 1916-17.
This rate does not apply to commercial motor vehicles.

[2] The allowance applies to all wagons owned by traders.
In the case of railway companies the method adopted is to allow the actual cost of renewals year by year.

[3] With regard to ships *purchased at secondhand* at prices in excess of the written-down value at the date of purchase, the following arrangements have recently been made:—
(*a*) The allowance is made on the actual cost price of the ship to the owner for the time being without regard to the prime cost to a previous owner.
(*b*) The rate of depreciation allowable is calculated by reference to the reasonable expectation of the life of the ship at the date of purchase from the previous owner.

[4] The rate of 15 per cent represents 5 per cent for normal wear and tear, and 10 per cent for the additional wear and tear arising from war conditions.

[5] An allowance per mile of track based upon the estimated life of the permanent way.

exceptional depreciation or obsolescence of assets employed in the trade or business due to the present war, or to the necessity in connection with the present war of providing plant which will not be wanted for the purposes of the trade or business after the termination of the war."[97] Blanket power "to allow such modifications . . . as they think necessary in order to meet the particular case" rests with the commissioners.[98] It is apparent that, with this ample authority, a proper spirit of fairness in the administration was all that was needed to solve the large number of special cases of hardship which inevitably arise in a complex business situation. In addition, however, in order to guard against the possibility of dissatisfaction through arbitrary administrative action, a petitioner might appeal from the decision of the Commissions to the Board of Referees.

It should be pointed out that whereas ordinary depreciation is limited to machinery and plant this special section applies to exceptional depreciation or obsolescence of *assets employed in the trade or business.* Consequently it is possible to grant deductions for depreciation in any type of asset. Acting under this authority the Inland Revenue permits the taxpayer to depreciate such items as patents (to the extent that loss is suffered "through effluxion of time" and is not offset by the development of good-will). No allowance is permitted for depreciation of the cost of leaseholds or of good will.

It is apparent further that the assets subject to the allowances for unusual depreciation or obsolescence need not be property specifically purchased for the purpose of manufacturing war materials. Any assets in the taxpayer's business adversely affected by the war come within the scope of the provision.

The extent of the loss which may be depreciated or amortized for purposes of the Excess Profits Duty is established on a liberal basis. The rule is that the total amount subject to deduction is the difference between "war value," (*viz.*, the value of the asset at the beginning of the first accounting period, when the Excess

[97] Finance (No. 2) Act, 1915, sec. 40 (3).

[98] In 1916 when the application of the Act to shipping companies was made more stringent, an amendment prescribed that nothing in the section quoted above should operate to enable the purchaser of a ship to obtain greater relief than the vendor could have obtained, had the ship not been sold, other than "relief in connection with expenditure by the purchaser on improvements or repairs."

Profits Duty began to apply or the cost price if acquired after that date) and the "post-war value" (*viz.*, the market value of the asset at the end of the last accounting period subject to the Duty or some other post war date to be fixed subsequently). In other words the total diminution in the value of assets due to war conditions and occurring during the period of the application of the Duty may be charged off. Moreover, that diminution may be charged off against the profits of the whole war period and not merely against the profits of the accounting period in which the loss is disclosed.[99]

Post-war value being for the present an indeterminate quantity, the practice of the Inland Revenue has been to hold in abeyance most questions of unusual depreciation and obsolescence For a time an arbitrary rule limiting tentative deductions in any one year to twenty per cent was in force[100] but it was made very clear that this was a tentative allowance. Even this limitation has since been abandoned. At present reasonable allowances, without specific limitation, may be claimed for current periods but they are regarded as *interim* concessions, subject to readjustment upon the final settlement at some future date.

Amortization.—That part of the section quoted above which reads "owing . . . to the necessity in connection with the present war of providing plant which will not be wanted for the purposes of the trade or business after the termination of the war" is construed to give ample authority for amortization deductions. Such deductions are attributed to the entire war period and not merely to the year in which disclosed.

Postponed Repairs.—In cases where, because of the pressure of war work, repairs have not been made, an arrangement is pro-

99 Deputation from the Executive Council of the Association of Chambers of Commerce of the United Kingdom to the Chancellor of the Exchequer, April 3, 1918, p. 10 *et seq.*

100 In this country in cases of amortization allowances for property whose post-war value has not been determined definitely, the tentative deduction in a single year is apparently restricted to 25 per cent of the cost of the property. (T. D. 2859.) This restriction has been severely criticized and may perhaps not be rigidly adhered to in all cases. The Department does, however, adhere in its assessments to a reduction in value to current values in the year of assessment and refuses to make tentative or provisional allowances in anticipation of a drop in values by the time the three-year period specified in our statute has expired.

vided under Section 40 (3) which permits the deduction of amounts representing the probable cost of such repairs from the profits of the current accounting period.[101]

Obsolescence.—War obsolescence is specifically mentioned among the grounds justifying appeal for special treatment from the Commissioners of Inland Revenue[102] under the section quoted above and such deductions have been fully considered in that place.

In order to increase the supply of scrap metal during the war, manufacturers were urged to discard all obsolete machinery. The Inland Revenue did what it could to encourage this tendency by ruling that sums realized from the sale of such machinery would not be subject to income and profits taxes as an ordinary receipt but should be held as a reserve for replacements. When the replacements are made the residual book value may be written off as a charge against profits for that year. In the case of the Excess Profits Duty an allowance is made for war obsolescence when settling the assessment for the year in which the plant was scrapped and notwithstanding the fact that it may not have been replaced.

Depreciation in Controlled Establishments.—Some irregularity was introduced into the allowances for depreciation in the course of the administration of the Munitions Levy. This levy, it will be recalled,[103] was under the control of the Ministry of Munitions whose chief function was, after all, the production of the articles needed in the war. The natural tendency was to subordinate other considerations to that end and it became the practice to encourage extension of plants and expansion of manufacturing activity by assurances of liberal depreciation allowances in calculating the Munitions Levy.[104] These allowances were often far

101 *Cf. infra*, p. 117 *et seq.*

102 Finance (No. 2) Act, 1915, sec. 40 (3). *Cf. infra*, p. 117 *et seq.*

103 *Cf. supra*, p. 6 *et seq.*

104 Sir J. Harmood Banner described the situation in these words: ". . . the Minister of Munitions had made this arrangement with a great many controlled firms: 'You spend so much money . . . for the purpose of increasing the supply of munitions, and I will give you special terms for depreciation, in order to induce you to do that. . . .'" In this speech an illuminating reference was made to the absence of complete harmony between the Minister of Munitions (Mr. Lloyd George and the Chancellor of the Exchequer (Mr. McKenna)). "I looked with some amusement to see the Minister of Munitions sitting beside the right hon. Gentleman. I think I

more liberal than those permitted for income tax purposes which, in turn, were the foundation for the determination of profit for the Excess Profits Duty. In dovetailing the Munitions Levy into the Excess Profits Duty it was strongly urged that the establishment of the arrangement whereby the concern paid the higher tax[105] constituted an abrogation of contract unless accompanied by a recognition by the Inland Revenue of the depreciation allowances sanctioned by the agreements of the Ministry of Munitions. This is the explanation of the section of the Finance Act of 1916[106] which prescribed that any items of exceptional depreciation or obsolescence of buildings, plant or machinery disallowed for income tax purposes should be recognized and the proper repayments of income tax made.

Depletion.—It has never been the custom under the British Income Tax to permit deductions for the depletion of wasting assets, but under the Excess Profits Duty it has been considered advisable to take this element into account. The reasons for this difference of treatment are embedded in the general thory lying back of their income tax practice. In arriving at taxable income, they aim to eliminate capital factors. In general, increases or decreases in the value of capital assets do not enter into the computation. It is true that there has been a gradual recognition of depreciation of plant and machinery as a proper deduction but the line has been sharply drawn between such assets and those ordinarily subject to depletion. The content of a mine,

saw the Chancellor of the Exchequer turn around a little, and I am not quite certain whether he was sure of the approval of the Minister of Munitions. . . ." Debates, 81: 1088. Mr. McKenna later pointed out with great directness the relative success of the Excess Profits Duty for which he was responsible as compared with the Munitions Levy of Mr. Lloyd George. "The revenue derived from that tax (the Excess Profits Duty) has been enormously in excess of the Estimate. . . . Perhaps at some other time he (the Chancellor of the Exchequer) will give us the amount which has been collected under the Munitions Levy since its first adoption as far back as July, 1915. I venture to say that the Committee will find—I do not know the figures—that the amount collected from all the controlled firms is practically negligible." Mr. Pringle: "Eye-wash." Debates, 93: 396.

105 *Cf. supra*, p. 30.

106 *Sec.* 39. *Cf. infra*, Appendix A, III. *Cf.* also *ibid.*, sec. 55 and Finance Act, 1917, sec. 16. Mr. Baldwin, Lord of the Treasury, assured the House of Commons in 1917 that munitions firms would continue to receive the customary allowances even after coming under control of the Inland Revenue. Debates, 93: 434.

they argue, was originally a gift of nature. The original owner paid nothing for it. Every new purchaser since 1842, when the Income Tax was established, paid his price "on notice" that the income realized from the property would be subject to income tax without allowance for depletion. If it is recognized that this factor must tend to reduce the capital values of mining properties as compared with property in general, they either (1) ignore it on the ground that such incidental effects on capital values lies outside the scope of consideration in the case of income tax or (2) reply on the general philosophy which justifies the existence of the Mineral Rights Duty and Excess Mineral Rights Duty, *viz.*, that income from mines, *etc.*, is a particularly suitable subject for special taxation.[107]

However, the theory back of the income tax holds together only so long as the tax is one which is foreseen and counted upon. In arriving at the price of a mine, say in 1910, the buyer could not have been said to have anticipated an Excess Profits Duty which had not yet been invented. Consequently there was no "cushion" here (in the shape of smaller purchase price paid by the owner) to absorb this shock. As compared with other enterprises where depreciation was allowed and which had no wasting assets of the nature usually provided for by depletion, the owner of mining enterprises was in a very weak position for he would, in the absence of some special provision, be subjected to rates of from 40 to 80 per cent upon sums which were really merely a return of the capital invested when he bought the mine.

The British administrators recognized this fact and appreciated the necessity for providing relief. There was no statutory authority to allow depletion deductions in arriving at taxable profits. But there was power vested in the Board of Referees to increase on appeal the statutory percentage on invested capital. Consequently under section 42 (1), which provides for appeals "for an increase in the statutory percentage as respects any class of trade or business," the cases of hardship as the result of the non-allowance of a depletion deduction are cared for.[108] There may be some slight deduction for wasting assets provided for

107 For a very interesting and able discussion of this problem *cf.*, Report of the Royal Commission on the Income Tax. (Cmd. 615), p. 43 *et seq.* The Commission recommends a very limited deduction in the case of wasting assets in arriving at net income for purposes of the income tax.

108 *Cf. infra*, p. 125.

theoretically in the ordinary 6 and 7 per cent allowance on capital and, moreover, when the Duty is calculated by comparing present profits with pre-war profits, depletion being included in both, the problem would normally be canceled out. However, even a cursory inspection of the additional percentages allowed by the Board of Referees indicates the importance attached by them to this element of wasting assets. Thus, certain classes of mines which have been passed upon have been granted increases varying from 2 to 21½ per cent while the range of additions in the case of other concerns has been from nothing to 9 per cent.

Inventories.—The treatment of inventories or "trading stocks" presents peculiar difficulties in connection with the application of a special profits tax. The chief problem is fundamentally that of covering the risk of unfavorable price fluctuations. If one views the war period as a whole the price level shows a very great rise as compared with the pre-war level. There is a general expectation that a considerable fall will follow. Great as this general movement has been, the price changes of individual commodities have, of course, been much more violent and abrupt, involving in the cases of particular taxpayers correspondingly large gains and losses. If the valuations of stocks held by a trader follow the market prices, the successive balance sheets reflect the market variations and show a series of profits equal to the increased prices of the stocks carried as the market moves upward and a corresponding series of losses as the market moves downward. Of course, a truly accurate balance sheet should reflect the exact present worth of a business but it is obvious that, in so far as the item of net worth contains an element of unrealized profit on items whose prices will probably fall before realization, conservative management calls for special treatment through a reserve, either an open one or a hidden one in the form of some arbitrary, conservative method of valuing inventories. If the profits tax is applied to the war (and post-war) period as a whole (as our tax is not applied), losses suffered on the downward price trend being offset against profits made on the upward trend; if the rates of tax are held at the same level throughout and if the tax is continued in force until the end of the period of readjustment, there would be little ground for complaint from the taxpayer with a policy which insisted upon inventory valuations at

market price with no allowances for reserves.[109] *Where these conditions are not met, distress is inevitable unless mitigating measures such as reserve allowances or arbitrary rules of valuation* are accepted by the tax authorities.

In our own practice we cannot flatter ourselves that we have met this problem in an entirely satisfactory manner. Our general rule of inventory valuation provides the option between "cost" or "cost or market whichever is lower." In all concerns except those with the most sluggish of turnovers this results in a close correlation between inventory valuations and market prices. While it is possible to write down values in such cases as that of obsolescence, no formal provision is made for general reserves against possible declines in prices. Consequently there is no doubt at all but that we have levied heavy taxes upon a large quantity of profits which consist merely of the increased values of inventories while we have made practically no provision for returning these taxes in case the profits prove illusory because of a reverse movement of prices. Our general conception of the accounting period practically insulates each year's trading from every other, so that a net loss suffered during a year of declining prices may not be used to cancel taxes on the profits shown on the balance sheet during a year of rising prices. It is true that the Revenue Act of 1918[110] included a concession which was apparently designed to erase partially for this purpose the dividing line between the years 1918 and 1919 but it did not go far toward a solution of the problem.[111]

The general rule for valuing "trading stocks" in Great Britain is virtually the same as our own, "cost or market whichever is lower," but it has long been the practice of the Inland Revenue to admit, under restricted conditions,[112] inventories appraised in accordance with the so-called "base-value" or "base stock" principle. This principle is used in certain base-metal manufacturing trades such as copper, pig iron, lead, spelter, etc. for part of their materials "on the theory that it is necessary for the under-

109 There would still be, of course, the injustice involved in holding the taxpayer's money between the time of collection and eventual refund.

110 Secs. 214 (a-12) and 234 (a-14).

111 This section was construed by the Treasury in Sections 263-267 of Regulations 45.

112 This method must be the general practice of the trade. The problem as to what constitutes the general practice is similar to the problem of determinating the classes in appeals to the Board of Referees. *Cf. infra*, p. 129.

takings using them to keep a reserve stock to protect themselves against strikes and adverse fluctuations in market values, etc."[113] The basis in such cases "represents what may be called a minimum cost over a series of years for a minimum quantity; in theory keeping this minimum quantity untouched and unused, although in practice no actual reserve stock may be kept which could be identified at any time; any excess over this amount is valued at cost or market value, whichever is the lower."

Moreover, one must keep in mind the fundamental differences between the American practice and the British which lies in the fact that they freely erase the lines between accounting periods, charging losses back against previously taxed profits.[114] This has, of course, a profound effect in giving relief to the taxpayer.

Finally the British have adopted certain special measures of relief and contemplate the adoption of still others.[115]

The Rules of the "White Paper" of 1917.—The special modifications of the general rules were made when the Finance Bill of 1917, raising the rate to 80 per cent, was under consideration. At this time the whole question of the valuation of trading stocks became a storm-center. Deputations urging special treatment besieged the Government[116] and a private bill amending the Finance Act was introduced into the House of Commons.[117] The

113 Opinion given by the Committee of Consulting Accountants advising the Ministry of Munitions in regard to Munitions Levy, June 14, 1917. *Cf. infra*, Appendix F.

114 *Cf. supra*, p. 45 *et seq.*

115 *Cf. infra*, p. 62 *et seq.*

116 *E.g.* The Association of Controlled Owners, later reorganized as the Federation of British Industries.

117 The proposed amendment to the Finance Act read as follows: "At the end of each and every accounting period the stock then on hand shall be brought into the accounts for such period as to any quantity not exceeding that brought into account at the commencement of the first accounting period (hereinafter referred to as "normal stock") at the same prices as those at which the latter was so brought into account and as to any quantity in excess of the normal stock at the prices at which the same was acquired or at the market value thereof, whichever the lower; provided that, if at the end of the last accounting period the stock in hand be less or more than the normal stock, the deficiency, if any, may be made good, and in such case shall be deemed to have been acquired during the last accounting period and be chargeable accordingly, and for any excess a period shall be allowed in which to ascertain by actual realisation the value thereof, and the same shall be brought into account at the prices so realised."

Government referred the question to a committee of prominent accountants who advised certain concessions but opposed most of the proposals submitted by the petitioners. The report of the accountants is printed in an appendix to this monograph (Appendix F). Acting upon the advice of this committee the Government refused to agree to the suggested amendment but offered certain concessions in the form of a "White Paper" which it eventually put into effect through action by the Commissioners of Inland Revenue, without additional legislation, under authority of Section 40 (3) of the statute. This memorandum gives the modifications in the general principles of valuing inventories which the Inland Revenue now recognizes for purposes of the Excess Profits Duty. The importance of these rules merits their statement in full:

Valuation. General Principle.—The Board of Inland Revenue are prepared to adopt the following modifications of the general principle that stocks should be valued at cost price or market value, whichever is the lower.

1. *Final Valuation. General concession for Excess Profits Duty.*—A period of two years will be allowed after the termination of the war in which to ascertain by actual realisation the value of the stock appearing in the account at the end of the last Accounting Period, and an allowance made from the profits of that period for any difference between the valuation and the sum realised.

The loss (if any) on only such stocks as were in hand at the end of the last Accounting Period will be brought into the adjustment, but the whole of such stocks, not individual parcels selected by the taxpayer, must be considered.

The necessary sanction for this modification of general principles will be given by a Regulation under section 40, sub-section 3, of the Finance (No. 2) Act, 1915.

2. *Treatment of "Base Stocks."*—Certain classes of industry require to keep stocks of raw or semi-manufactured goods for the purposes of manufacturing processes, and these goods are frequently of such an imperishable character that a minimum quantity required for a business could be held untouched for a long period.

Accordingly any class of trade—

(*a*) which requires for its manufacturing processes to keep such stocks, *and*

(*b*) in which a recognised practice has obtained of valuing a constant quantity at a fixed price,

the Board of Inland Revenue are prepared to recognise the practice.

The Board of Inland Revenue would regard goods as imperishable which are of sufficient durability to last without material deterioration during a period equal to the length of the war.

Any individual member of the class who has not adopted the method in his business may be allowed to do so for the purposes of Excess Profits Duty, but may not claim as the constant quantity of stock so valued a greater quantity than the minimum amount held at any stock-taking in the three pre-war trade years.

Where a claim is made that an industry should be brought within this concession, the Board of Inland Revenue are prepared to receive representations and to consider evidence as to the existence of a material body of such practice in the industry and as to the character of the stocks to which it is claimed the method should be applied, with a view to securing the uniform treatment of all members of the industry.

The balance of stock above the minimum quantity in cases falling under this modification of the general principle is to be treated as in (1).

3. *Replacement of minimum quantities in certain circumstances.*—Profits derived from sales which reduce stock below the particular minimum or constant quantity adopted for any business are not the less trading profits. Where, however, a raw material is associated with plant in a manufacturing process (e.g., metal kept to a constant level in galvanizing baths), the Board of Inland Revenue will consider a claim under section 40 (3) of the Finance (No. 2) Act, 1915, that it is akin to a capital asset, like plant, which has been exceptionally depreciated (by depletion) or of which the renewal has been postponed.

4. *Hidden stock reserves generally.*—Where in an industry or as respects a class of stock to which the foregoing (2) does not apply, the owner of a business has taken a quantity of stock at a base price, the stock will fall to be valued during the periods of liability at cost or market value, whichever is the lower; but from the final valuation (on that basis) there will be allowed a deduction of a sum (in pounds sterling) equal to the original difference (at the end of the standard period) between the valuation on the base method and a valuation on the cost or market value method. Alternatively, the first stock valuation may be revised and put upon the general basis of cost or market value, when the modification outlined in (1) will apply.

Rule 1 of the above memorandum sets at rest the fear that a sudden repeal of the Excess Profits Duty before prices had readjusted themselves might leave taxpayers without any provision for using inventory losses suffered after the repeal to offset profits which had been subjected to the Duty. It should be noted that the language of the rule that an allowance will be made "from the profits of that (last accounting) period for any difference" is not so interpreted as to exclude carrying back still further any part of the loss too great to be set off against the profits of that

last period.[118] An important restriction is that which limits the loss to that "on only such stocks as were in hand at the end of the last Accounting Period," for there may be, of course, a series of successive losses during the process of returning to the permanent price level.

Rule 2 is narrowly restricted in its application. It does not extend, for example, to concerns which ordinarily use the "base value" method in their accounts but fall within a trade where the method is not the general practice. Such concerns must discard their usual methods and take their inventories on the cost or market basis. On December 5, 1918, it was reported that only about twenty-four applications had been made for permission to use this method. Fourteen had been rejected or abandoned by the applicants; in five cases the concessions had been granted for sections of the stock and the remaining five cases were pending.[119]

These then are the rules which control the procedure as it stands today.

The Committee on Financial Risks Attaching to the Holding of Trading Stocks—Dissatisfaction with the extent of the relief afforded under the rules of the White Paper, coupled with the conviction that the whole problem of stocks would be of vital importance in the years following the war lead to the establishment in February, 1918, of a special committee of ten prominent business and professional men[120] "to enquire and report as to any measures which could be adopted with a view to securing that manufacturers and others should be financially in a position to hold stocks after the war, and that reasonable safeguards are established to prevent serious financial losses as a result of possible depression following on a period of great inflation, in respect of stocks of materials required for industry."

The report of the committee submitted on December 5, 1918,

[118] Deputation from the Executive Council of the Association of Chambers of Commerce of the United Kingdom to the Chancellor of the Exchequer, April 3, 1918, p. 16.

[119] Report of Committee on Financial Risks attaching to the Holding of Trading Stocks. Cmd. 9224, 1919.

[120] The members of the committee were as follows: Mr. F. C. Harrison, C.S.I., (*Chairman*); Mr. Cecil L. Budd, C.B.E., Mr. J. E. Davison, Mr. Ernest R. Debenham, Mr. G. Binney Dibblee, Mr. A. W. Flux, Mr. A. J. Hobson, Mr. William McLintock, Dr. J. C. Stamp, C.B.E., Sir Richard Vassar-Smith, Bart, with Mr. R. C. Smallwood, as Secretary.

makes a strong plea for further relief[121] to the holders of stocks purchased at high prices.

The testimony before this committee revealed the fact that there was a strong demand for the wider application of both rule 1 and rule 2 of the White Paper and for still additional relief beyond this. Single traders who used the "base value" method resented being placed upon another basis because they chanced to fall within a trade in which this method was not generally used. A majority of the committee, however, reported that the "base stock" method was "repugnant" to their views "as to the correct system of accounting"[122] and formulated their conclusion in these words: "In our judgment industries which have obtained this concession have established no further title to relief. They will commence the post-war period with stocks valued considerably below their market price."[123] Four out of the ten members of the committee differed sharply on this point and signed a minority report which contained the following clauses in which they record their faith in the correctness of the accounting theory back of the "base value" method and urge its recognition in the case of any individual concern desiring to adopt it:

> To maintain the stability of trading concerns and particularly of Joint Stock Companies, we regard it as desirable, for the future, that all firms and companies so electing, should be permitted to adopt the base price method of stock valuation, independent of taxation; but the prices must not be lower than they have actually reached "at cost or market value" within the trader's experience.
>
> We are of the opinion that the base stock method of eliminating from trading profits the fluctuations in stock values, is preferable to the creation of reserves from profits enhanced by rising markets, and using up such reserves against losses in falling markets, as the more accurate ascertainment, and more equal distribution of actual trading profits, over a longer period than one year, which results from the method we advocate, stabilises the business and enables loan, or preference capital, to be obtained on better terms.[124]

The case against the adequacy of Rule 1, which makes allowances for the fall in value of stocks held in the last accounting period to the extent to which they are realized in the succeeding two years, is admirably stated in the following excerpt from a

121 Cmd. 9224.
122 *Ibid.*, p. 5.
123 *Ibid.*
124 *Ibid.*, p. 8.

memorandum drawn up by the Association of Chambers of Commerce of the United Kingdom:[125]

The Government appear to recognise it as reasonable that having taken from manufacturers a large share of their profits, when they were purchasing on a rising market, there should be some deduction and allowance at the end of the last accounting period when the reaction comes, and manufacturers are selling on a falling market. Rule 1 is obviously inadequate for several reasons, of which the most obvious is, that it operates only when there is an actual realisation of the stock carried at the end of the last accounting period. A manufacturer does not realise his stock of raw materials or semi-manufactured goods, he converts them into fully manufactured goods. Rule 1 operates only once, and it makes no allowance for the fact, that the manufacturer has to go on manufacturing and selling on a falling market. He may rid all his manufactured stock a month or three months after the end of the last accounting period, the price of these goods may not have fallen at all and he will then get nothing under Rule 1, though a serious fall in the value of his raw materials and partly manufactured stock may have begun and may be going to continue for many months. A loss under Clause 1 will be exceedingly difficult to prove for several reasons.

It is assumed by the Commissioners of Inland Revenue, that a loss can only be the difference between the sum realised and the valuation of the stock at the end of the last accounting period. Evidently it is necessary for a firm to continue to bear business expenses in the next accounting period in order to realise stock, and to say that the whole of the gross proceeds of such realisation must be set against the valuation of stock, necessitates that all the standing charges necessary to realise such stock shall be lost by the firm continuing business before any claim for loss will be entertained by the Commissioners.

A second difficulty in making a claim is due to the fact that raw materials and partly finished goods have to be finished at a further expenditure of money during the new accounting period before being ready for sale. The Officials at Somerset House have defended the proposition that such further expenditure is entitled only to be replaced without gross or net profit, when the goods are ultimately sold, before a loss can be charged. As an illustration, if £100 worth of goods in stock require a further £100 to be expended upon them to make them into a saleable commodity and are then ultimately sold for £200 the Officials to the Inland Revenue Commissioners would hold that no loss had been incurred, whereas it is quite evident to the trader that he had had to provide capital and expenses from the new year's turnover at a sacrifice of the whole of his anticipated gross

125 Monthly Proceedings, May, 1918. This memorandum is said to have come from the able pen of Mr. A. J. Hobson, a member of the Committee on Financial Risks and then Vice-President of the Association.

and net profits on such enterprise, in order to protect the Inland Revenue against loss upon stock consumed in the production of such goods.

A third difficulty that arises is that a loss can only be allowed "on such stocks as were in hand at the end of the last accounting period." In most manufacturing businesses there is no system of accounting which shows which raw materials or partly finished goods ultimately become goods for sale in the subsequent accounting period. In the absence of such system of accounting it would appear to be hopelessly impossible to prove on which goods in stock the loss took place, after they had been blended in the new accounting period with goods acquired subsequently to the date of the stock taking. In view of this difficulty in establishing a claim for himself, the position of a manufacturer, and to some extent also of a merchant who requires to hold stocks of goods to retain the good-will of his business, appears to be that the increment in value of such stocks as are essential to the continuity of his business is added to his profits on the rising market and 80 per cent thereof taken for E. P. Duty and 6*s.* in the £ on the Balance for Income Tax, but when on the falling market a loss arises, such difficulties have been placed in the way of proving a loss that it is a matter of almost complete indifference what period of time is given to send in claims.

The majority report of the committee deals with the technical difficulties of administering Rule 1 in the following manner:

The witnesses who came before us as representatives of industry considered this concession unworkable and wholly inadequate—unworkable because the physical identity of the stocks sold cannot in practice be ascertained; inadequate as only relating to one set of sales. The Board of Inland Revenue, we understand, hope to be able to overcome the first objection to the satisfaction of the trader. That is to say, a business will not be required to prove that the particular stock sold is that which was originally held. For example, if the stock at the end of the last accounting period was 1,500 tons, and 1,000 tons were sold in the succeeding two years, the concession would cover the whole 1,000 tons, whether they were part of the original 1,500 or not. Indeed, the official witness went further. He expressed the personal view that if the sales were only 1,000 tons during the two years the business should be allowed to take the remaining 500 tons at their market value at the end of the two years, and date back this loss just as if they had been sold.

We consider it essential when effect is given, by the promised statutory regulation, to the undertaking in the White Paper that these points should be clearly conceded.[126]

The second objection mentioned in this excerpt—that the relief applied only to one set of sales—raised issues which in the

126 Cmd. 9224, p. 5.

opinion of the committee could not be met in an entirely satisfactory manner. The majority recommendation on this point was that, if possible, the rate of the tax be reduced from 80 per cent, where it then stood, to 60 or 65 per cent, "on the understanding that the rate so given up is retained in the business and not distributed."[127]

Such a reduction of rate "might well be accompanied by the withdrawal of the first undertaking provided in the White Paper (Rule 1), for the latter was, after all, largely consequential upon the raising of the Duty to 80 per cent."[128]

If the rate could not be reduced the committee recommended a highly ingenious plan for converting a portion of the Duty into a "suspensory reserve" in the form of a special type of government bond. The scheme is set forth in detail in the following quotation from the report:[129]

> 17. If, however, in the present state of the National Exchequer, the course we suggest [*viz.*, the reduction in the rate] is impracticable, and the actual cash must be available to the Government, we recommend that a portion of the Duty now to be paid be regarded not as a final payment of tax, but as a suspensory reserve, held on joint account by the Government and the taxpayer. The portion so reserved should be represented for the time being by a special kind of War Loan, which would be so held for five years. Thereafter this reserve would revert entirely to the State; or, in circumstances to be set out below, would become wholly or in part (with accrued interest) the property of the taxpayer.
>
> The advantages of this scheme are threefold:—
>
> 1. It affords tangible evidence to the taxpayer of a definite provision made by the State towards prospective post-war losses.
> 2. It fixes a maximum limit to the Exchequer's ultimate liability on account of such losses.
> 3. Capital experiences great difficulty in the financing of its business during this period of inflated prices. Relief is at present afforded by excess profits earned, but not paid in to the Government until eight or ten months after the close of the year under assessment, and by excess profits earned but not paid in during the running year. The existence of this reserve affords valuable collateral security, for it reassures the banker at the moment when anxiety is acutest, *i.e.*, when profits are declining to a critical figure.
>
> We suggest that the amount of this reserve should be 20 per cent of the *average* excess of profits above the standard in the last two

127 *Ibid.*, p. 6.

128 *Ibid.*

129 *Ibid.*, p. 6 *et seq.*

years under the charge to Excess Profits Duty. (The Chairman and certain members of the Committee are of opinion that this percentage should be considerably greater.) When the last payments of Duty are being made, the scrip of the special war loan to which we have referred would be given for the sum so computed, and ordinary tax receipts for the balance.

The circumstances in which, as we suggest, the reserve should not revert finally to the Government, but wholly or in part to the taxpayer, are as follows:—

The taxpayer must show, at the end of five years after the war, that his average annual profits over that period are less than the amount of the *percentage* standard to which he was entitled, or would have been entitled, under the Excess Profits Duty, and that these deficiencies have been connected with holding stock at falling prices (as distinct, for example, from bad management or reduced turnover), during that period. He would then be entitled to relief to the extent of 80 per cent on those deficiencies, and the war loan, with accrued interest, would revert to him for the amount of that relief, but for no greater sum than the amount of the reserve. For example: A company has an excess profit of £40,000 in the last two years of the duty, or an average of £20,000. In its final payments to the Exchequer, 20 per cent, viz., £4,000, would rank as Reserve (under war loan).

Its profits standard, for Excess Profits Duty, was £15,000 (*i.e.*, its profits in 1912 and 1913), or, say, 15 per cent on its capital of £100,000. If, after the war, its average profit is £12,000, it has *no claim,* even though losses have been made at various times by sales on a falling market. But, if the profit falls below the percentage standard[130] (6 per cent on £100,000 = £6,000), and amounts, say, to an average of £5,200, it would get relief as follows:—

Five years' Profits	£26,000
Five years' Percentage Standard	30,000
Deficiencies	£4,000
80 per cent thereon	3,200

£3,200 of the £4,000 in suspense reverts to the taxpayer. If, however, the profits amounted, say, to an average of £4,000 only, it would get relief as follows:—

Five years' Profits	£20,000
Five years' Percentage Standard	30,000
Deficiencies	£10,000
80 per cent thereon	8,000
Relief confined to the sum in reserve	£4,000

[130] It will be necessary to consult the Treasury on the feasibility of the scheme.

It may be well to explain here why the relief proposed should not extend beyond 80 per cent of the deficiency. It will be obvious that if the deficiency ranked for relief in full, a trader, who found he was likely to be a claimant, would have no incentive to trade properly and keep his deficiency as small as possible, for the State would bear it all. We, therefore, consider that some incentive must be given him, which will, in effect, protect the State from such an abuse.

18. We do not pretend that the remedy we propose with the limit suggested meets all the possible or prospective losses on a falling market. But it is obvious that any relief must be limited and severely conditioned by the financial position of the Exchequer in the difficult years following the war, and by the burden that would be thrown upon other classes of taxpayers called upon to make good the charge to the Exchequer resulting from the relief. Hence, we cut out altogether from consideration all trading concerns which, though adversely affected by the fall in prices, still make relatively good profits, and deal only with those which are genuinely hard hit over an extended period, relieving them to an extent which pays more regard to the paramount needs of the Exchequer than to the degree of misfortune of the taxpayer. Any attempt to make the relations between the taxpayer and the State in the matter of relief on a falling market exactly parallel to and consistent with their relations in taxation during the war on a rising market, is not practicable; and, if it were practicable, does not commend itself to us as in itself an aim to be pursued.

* * * * * * * * *

21. It is not possible for our suggested remedy to have application simultaneously with that promised by the Government under Paragraph I of the White Paper; and we should accordingly have recommended but for one consideration, that the latter be cancelled. The Government undertaking relates to the losses upon *one set of sales,* viz., of the stock in hand at the end of the Excess Profits Duty, without regard to the general prosperity of the business in the long run. It may well be that businesses having a claim under the White Paper, on the faith of which they are now resting, will never even expect to be so depressed as to come within our proposal. We therefore suggest that undertakings given in the White Paper (made clear, as we recommend in paragraph 11) should stand; but that each business should state, when making its return for assessment for the last period, whether it proposes to come under the White Paper, or, waiving all rights thereunder, to come under the five-year war loan system of relief. This election is free from the objection which would attach to an option after the event.

A combination of factors, including among others the continued existence of the Duty itself, the reduction in the rate to a point even below that suggested by the committee and the failure of prices to collapse so violently as had been anticipated, has

operated to delay action on the report of this committee. However, a sharp fall in prices or an extended business depression is certain to bring the problem up again. It is generally understood that the present Government is practically committed to legislation giving further relief along the lines laid down in the report.

It is significant that the majority of this British Committee opposed the use of the "base-stock" method. Our own situation can probably best be relieved by a broad amendment recognizing all losses even when realized after the taxable period in question.

Capital Gains.—Since the British concept of taxable income does not ordinarily include profits derived from the sale of capital assets of a business,[131] "replacement funds" are superfluous.

Upon passage of the Act, however, it immediately became apparent that the failure to tax capital gains opened a wide avenue for those who desired to escape the tax. Appreciated assets could be sold in bulk or as a part of a going business without subjecting the resulting profit to tax. That appreciation might be due to lavish expenditures from current income for purposes such as advertising, deductible as an expense but contributing to the future as well as the present earning power of the business. Or the sale of the asset at the high level might be resorted to with the purpose of establishing a new standard of profits or high depreciation and obsolescence allowances. The problem here arising has not been fully met by the British authorities.[132] Its continued presence is condoned by the temporary character of the tax.

The 1916 Proposal to Tax Capital Gains.—Only a few months after the passage of the act Mr. McKenna asked for an amendment which would bring within the scope of the Duty "any sum by which the price given on the sale of any asset capable of producing profits exceeds the pre-war value of that asset."[133] He stated that this was needed "to prevent a leakage which might become serious."[134] A desire to reach the profits being made from the sale of ships was said to be the principal motive back

131 *Cf. supra,* pp. 21-22.

132 *Cf. supra,* p. 22.—The situation has, thus far, not become so serious in this country because capital gains are considered taxable income and the individual surtaxes have been high enough to discourage the consummation of such transactions. There may have been, however, some evasion of our Excess Profits Tax by this method.

133 April 4, 1916, Debates, 81: 1160.

134 *Ibid.,* 1052.

of the suggestion. In the debate strong objections were made to the proposal. It was pointed out that it was inconsistent with the income tax law and that if the gains were taxed, the deduction of capital losses would have to be allowed.[135] It was decided, finally, to attempt to reach the profits of shipping in a different and indirect manner through a modification of the pre-war standard.[136]

Profits Realized from Disposition of Trading Stocks.—The general problem again became acute in 1918 when it became known that certain Scotch distillers were evading the Duty by resort to capital transactions. Being in possession of large stocks of whiskey which had appreciated enormously in value and which would result in large profits subject to the 80 per cent Duty if sold in the ordinary course of trade, they succeeded in realizing on the stock without paying the duty by selling it in bulk otherwise than in the ordinary course of the business as a going concern.

The amendment of 1918[137] was aimed directly at this practice. It provided that for purposes of the Duty profits arising from the sale of trading stock at any time after April 22, 1918 (the date of the Chancellor's budget speech announcing the amendment), "otherwise than in the ordinary course of trade," would be "deemed to be profits arising from a trade or business." Where a business had ceased it was to be "deemed to have been carried on up to and including the date on which the sale takes place." In such cases the person by whose authority the stock is sold is made liable for the Duty. No liability attaches to the purchaser. The appointment of a liquidator or other agent to dispose of the stock is not treated as a change of ownership, the true owner's interest and liability carrying through to the consummation of the operation. Where trading stock is combined with other assets in a general sale the Commissioners of Inland Revenue[138] assign the portion of the profits for which the trading stock is responsible. Disposition of the stock otherwise than by sale, *viz.*, by exchange or by distribution *in kind* is held to be a realization and no such disposition was permitted after May 14, 1918 (the date of the announcement of this proposal in the House of Commons) without provision being previously made with the Commissioners

[135] *Cf.* speech of Sir S. Harmood-Banner. Debates, 81:1089.

[136] *Cf. infra,* p. 80.

[137] Finance Act, 1918, sec. 35.

[138] With appeal to the Commissioners of Income Tax.

guaranteeing the payment of the Duty. Trading stock is so defined as to include raw and semi-finished goods as well as the completed product.

As the matter stands, consequently, there is this modification in the concept of profits so far as the inclusion of capital gains is concerned, *viz.*, that profits made from the disposition of assets which, if sold in the ordinary course of business, would become taxable are to be included when realized even though sold outside the ordinary course of trade.

Modifications Due to Variations in Value of Securities.—The problem of the effect of variations in the value of capital assets upon the profits subject to the Duty is again involved in the special modifications allowed in the profits of life insurance companies and concerns whose principal business consists of the making of investments on the ground of variations in the value of those investments. As has been pointed out, the Commissioners have been able to extend relief in certain cases where market values have shrunk owing to the general diminution in the purchasing power of money.[139]

Even more interesting is the procedure with reference to variations in the value of war bonds which are owned by a concern as a temporary investment and which have been recognized as invested capital.[140] In such cases both profits and losses resulting from the sale of such securities are taken into account in arriving at taxable profits.

Reasons for Exclusion of Capital Gains.—It is an occasion for wonder in this country, where so much of our wealth is accumulated through the appreciation of assets of one type or another, that the British should not tax capital gains. So far as the writer was able to learn from his inquiries, however, there is fully as much wonder among the British that we should undertake to tax such gains. No demand at all exists for a change in their practice. In fact, their concepts of capital and income, artificial though they appear to the American observer, are entrenched by a century of acceptance and are considered by the ordinary business man as natural as the laws of physics. Of course, the administrators are acutely conscious of the problem involved in the differentiation but their interest is primarily on the technical side

139 *Cf. supra*, p. 42.

140 *Cf. infra*, p. 85 *et seq.*

—that of establishing the dividing line for administrative purposes.

When one asks an Englishman why capital gains are not taxed the first reply is almost invariably a surprised and shocked exclamation to the effect that this would mean the taxation of capital and not of income. If one then asks whether a tax on the increased value of stock-in-trade is a tax on income or a tax on capital, he usually forsakes argument on the basis of fundamental principle and pleads the practical necessity for a dividing line. As a matter of fact that dividing line is a thin and tenuous one even in English income tax procedure as can be judged by some of the modifications, described above, which have been found necessary in the course of the administration of the Excess Profits Duty.

In practice the distinction between taxable capital gains and exempt capital gains is left to the local surveyor without any very definite rule to guide him. Moreover, the cases which have been carried to the courts have not been dealt with decisively, so there exists in practice a wide twilight zone within which cases are sometimes decided one way and sometimes another. One principle which the courts attempt to apply is that the purpose for which the asset was acquired is a material consideration.[141] If bought to resell, the profit is taxable. If bought and resold at a profit when the original intention was not to resell, the profit is exempt. It is apparent that, where the distinction rests in this fashion upon an ascribed motive which need not be declared until after the event, the distinction has no very firm foundation.

The fundamental explanation of the British concept is probably to be found in certain facts in the general economic background of England. It is an old, conservative, economic organism where transfers are less frequent than in this country, where fortunes are less often made through trafficking in appreciating assets, where values are dealt with more largely in terms of income and less in terms of sale price and where, above all, the general conception of the economic structure is static rather than dynamic. This is very well illustrated by the fact that a tax on capital gains is often seriously opposed on the ground that this would logically involve the allowance of capital losses the net result being no additional tax. The conception of a total increase

[141] *Cf.* California Copper Syndicate *etc.* vs. Harris, C. E. S. Fraser's Law Reports. Vol. VI, p. 894.

in national wealth appears to be not a part of the mental furniture of most Englishmen. The minor losses and gains would, they feel, merely cancel each other and, with their static conception of aggregate wealth, the game does not seem to be worth the candle. Especially do the British shrink from any tax which involves an extensive evaluation of property, an attitude which has been accentuated by the bitter experience of the Inland Revenue with the Land Values Duty.

Closed Transactions.—The problems encountered under our statute in sales of assets, exchanges of property, mergers, consolidations and reorganizations, are almost entirely absent from the British practice since there appreciations in the value of capital assets are not taxed.[142] They entirely avoid the difficult case of a taxpayer who receives, by selling his capital assets, an abnormal amount of income in one year (in comparison with his invested capital) due to the realization of profits which have gradually accumulated over a period of years. Here such cases are often so serious as to require special treatment under the relief provisions of the statute.[143]

Determination of the Pre-War Standard

The profits as determined along the lines laid down in the preceding section are compared with a standard to determine their excessiveness. The British standard of profits, although single in form is in effect a double one. The rate is applied to the profits in excess of the *pre-war standard.* This, the statute states, is to consist of the *profits standard* except when "it is shown to the satisfaction of the Commissioners of Inland Revenue that that amount was less than the *percentage standard*" in which case the latter was to prevail.[144] The option, it will be observed, operates in favor of the taxpayer and against the Treasury.

The term *pre-war standard* consequently refers sometimes to a profits standard and sometimes to a percentage standard. These expressions are used in their technical sense in the discussion which follows.

The Profits Standard.—The Profits Standard, which is used in at least 80 per cent of the assessments, is defined as "the amount

142 *Cf. supra*, p. 69 *et seq.*

143 Revenue Act of 1917, sec. 210; Revenue Act of 1918, sec. 328.

144 Finance (No. 2) Act, 1915, sec. 40 (1).

of the profits arising from the trade or business on the average of any two of the three last pre-war trade years, to be selected by the taxpayer."[145] Profits for these pre-war years are computed "on the same principles and subject to the same provisions as the profits of the accounting period."[146] "The last pre-war trade year" is construed to mean "the year ending at the end of the last accounting period" before the outbreak of the war.[147]

In place of the average of two of the three last pre-war trade years, the statute permits the substitution of an average of any four of the six last pre-war trade years whenever the taxpayer can satisfy the Commissioners of Inland Revenue that the three year period was one of "abnormal depression." This phrase is defined to mean that the average of the three last pre-war years must "have been at least 25 per cent lower than the average profits of the preceding three years."[148]

Our 1917 law, which contemplated a deduction of the average pre-war earnings from the profits of the taxable year (but not less than 7 per cent or more than 9 per cent), required the average of the three years, instead of any two of such years. The 1918 law maintained the same rule for the war profits tax.

A bad pre-war year, in which there were very low earnings or a loss, is eliminated from the British computation of pre-war profits. With us the bad year would be included, but if the year showed a loss, the earnings of the two good years were divided by three. The British arrangement is decidedly more liberal to the taxpayer.

When Pre-War Period is Short.—The use of the profits standard was made available to concerns which had begun business too late to have acquired a record of three pre-war trade years within the following limitations:

1—Where there have been but two pre-war trade years, the taxpayer has the option of the last or the average of the two,[149] and

[145] Finance (No. 2) Act, 1915, sec. 40 (2).

[146] *Ibid.*, Fourth Schedule, Part II, rule 1.

[147] *Ibid.*, sec. 40 (2).

[148] *Ibid.*, Fourth Schedule, Part II, rule 3.

[149] A deputation from the Association of Chambers of Commerce of the United Kingdom asked for an amendment in 1917 which would permit a selection of either one of the two years, but the request was ignored. Deputation. April 24, 1917, pp. 3-4.

2—Where there has been but one, the profits of that year are taken as the profits standard.

In cases where there has not been a full pre-war trade year the pre-war standard is not a profits standard at all, but is taken to be "the statutory percentage on the average amount of capital employed in the trade or business during the accounting period."[150]

In New Agencies, Etc.—The difficult case of the recently established agency or business involving capital of such relatively small amount that the percentage standard offered nothing substantial in the way of relief is met in the statute by a provision granting a special profits standard. In such cases the pre-war standard is "computed by reference to the profits arising from any trade, business, office, employment or profession of any sort, whether liable to Excess Profits Duty or not, carried on by the agent or other person, before his new trade or business commenced as if it was the same trade or business; but only to the extent to which the income from the former trade, business, office, employment or profession has been diminished."[151]

Our 1917 law was designed to avoid this problem by allowing a very liberal specific exemption; by taxing concerns having only nominal capital at a low, flat rate, and by special assessments based on a comparison of the taxpayer with representative concerns. The restriction of the application of the latest American law to corporations only and the exemption of "personal service corporations" from the tax, has practically eliminated this problem in this country.

In Certain Concerns with Pre-War Losses.—An important relief provision included in the Finance Act of 1917[152] applied to cases where several distinct and separate industries are carried on under one management but with separate establishments and records. The Commissioners, in computing the profits standard for such concerns, are permitted to ignore a loss sustained by one or more of the constituent industries in a pre-war year whose record was utilized in the standard.

Under our laws the rule is to take the net income of the whole

150 Finance (No. 2) Act, 1915, Fourth Schedule, Part II, rule 4. *Cf, infra*, p. 76.

151 *Ibid.*

152 Sec. 26 (5).

business, including all establishments and branches and including all subsidiary corporations in case of consolidated returns, making due allowance for all losses in reaching the net income for the pre-war period.

The Percentage Standard.—As an alternative to the profits standard there is the percentage standard defined in the statute as "an amount equal to the statutory percentage[153] on the capital[154] of the trade or business *as existing at the end of the last pre-war trade year.*"[155]

Thus from the very beginning the British Duty has depended to an appreciable extent upon invested capital as a standard and there has been a progressive increase in that dependence with each year because of new business concerns launched and new capital invested in old concerns.

The percentage standard is the only one available under the statute in cases where there has been less than one pre-war trade year. In such cases the standard is established by applying the statutory percentage to the "average amount of capital employed in the trade or business *during the accounting period.*"[156]

The statutory percentage was originally 6 or 7 per cent for all purposes, the lower rate applying to corporations. In 1917 the 7 per cent applying to unincorporated businesses was increased to 8 per cent and the term statutory percentage differentiated in its application. It was now made different in its amount (to the extent of 3 per cent) when used for calculating the percentage standard on old capital from what it was when used for making calculations on the basis of capital introduced since the outbreak of the war. As it stands today, consequently, the percentages used for establishing the percentage standard are 6 and 8 per cent in the case of capital invested in the business at the end of the last pre-war trade year and 9 and 11 per cent in the case of new capital,[157] plus any additional percentages allowed as the result of appeals.[158]

153 *Cf. infra*, p. 91 *et seq.*

154 *Cf. infra*, p. 80. Invested capital is separately treated because of its importance and because it is utilized for other purposes than the establishment of the percentage standard.

155 Finance (No. 2) Act, 1915, sec. 40 (2).

156 *Ibid.*, Fourth Schedule, Part II, rule 4.

157 *Cf. infra*, pp. 91-93. It is proposed to raise the 9 and 11 per cent to 10 and 12 per cent in the 1920 Finance Act.

158 *Cf. infra*, p. 130 *et seq.*

Since the statutory percentage is used in making modifications in the profits standard as well as in the percentage standard it is treated more fully in an independent section.[159]

Modifications of the Standard.—The pre-war standard is subject to a variety of modifications when special circumstances are present.

Modifications of "Rules" by Commissioners or Referees.—The taxpayer may apply to the Commissioners of Inland Revenue for modification of any of the rules relating to the standard contained in the Fourth Schedule,[160] which include those governing the establishment of the standard, in case there has been a change in the constitution of a partnership or in case of "any other special circumstances specified in regulations made by the Treasury."[161] If the Commissioners refuse to grant his application he may appeal to the Board of Referees.[162]

Modifications in Standard by Referees.—Moreover, in the following two cases of appeals for modifications in the standard, the Commissioners are without original authority and must automatically transmit the petition "unless they are of the opinion that the application is frivolous or vexatious or relates to matters already decided by the Board of Referees.":[163] applications

1—For an increase in the statutory percentage or for a calculation of the percentage standard in the case of any class of trade or business in which the amount of capital actually employed is small compared with the capital necessarily at stake; or

2—"For an alteration in the pre-war standard of profits as respects capital employed for the purpose of the manufacture of war materials or for munitions work and which could not be expected to be remunerative or fully remunerative, except in time of war, in a business which has been wholly or mainly carried on for those purposes."[164]

The action of the Board of Referees with regard to increases

159 *Cf. infra*, p. 91 *et seq.*

160 *Cf. infra*, Appendix A, II.

161 Finance (No. 2) Act, 1915, sec. 40 (3).

162 *Cf. infra*, p. 121 *et seq.*

163 Under an amendment included in the Finance Act of 1917 (sec. 25) the Commissioners may transmit such a petition even though it may relate to matters already decided.

164 *Ibid.*, sec. 42.

in the statutory percentages is treated in another place (*infra*, p. 121 *et seq.*).

Allowances for Increases or Decreases of Invested Capital.—Under the provisions of the American law the excess profits credit is established by applying the statutory rate to the invested capital "*for the taxable year.*"[165] In 1918, when the "war-profits credit" was available as an alternative, that credit was established by adding to or subtracting from the pre-war profits a sum equal to ten per cent of the capital invested in or withdrawn from the concern since the pre-war period.

The British modifications to take into account changes in invested capital are just as truly modifications in the pre-war standard but for the sake of simplifying the procedure the adjustments are made by adding to or subtracting from the taxable profits of the current accounting period rather than by changing the pre-war standard itself. The pre-war standard, ordinarily either the average profits of certain pre-war years or the statutory percentage of invested capital, remains precisely as it was, not in the taxable year, but *at the end of the last pre-war trade year.* Then, if capital has been added to the business or withdrawn from it the proper sum is subtracted from or added to the profits of the current accounting period to compensate for the change.

Where capital has been increased a deduction is made from the profits of the accounting period equal to 9 per cent in the case of corporations and 11 per cent in the case of other businesses "on the amount by which the capital has been increased."[166] Where capital has been decreased, an addition is made to the profits of the period equal to 6 per cent, in the case of corporations, and 7 per cent, in the case of other businesses, on the de-

[165] Revenue Act of 1918, sec. 312. There is a specific exemption of $3000 and the rate is 8 per cent.

[166] Finance (No. 2) Act, 1915, sec. 41 (1) as amended by Finance Act, 1917, sec. 26 (1). Before 1917 the rates were 6 and 7 per cent. This provision is inoperative in the case of the purchaser of a ship under certain conditions, Finance Act, 1916, sec. 47 (e).

[167] Finance (No. 2) Act, 1915, sec. 41 (2); Finance Act, 1917, sec. 26. For an explanation of the differences between the rates applied to the amounts of the increases and decreases, *cf. supra*, p. 14. A further adjustment is made in case the capital is changed during the course of the year rather than at the beginning.

Capital is determined to have increased or decreased by comparing the capital employed in the current period with

1—"the average amount of capital employed during the pre-war trade years or year by reference to which the profits standard has been arrived at," in cases where the pre-war standard is a profits standard, or

2—"the capital on which the percentage standard has been calculated" in cases where the percentage standard is used."[168]

Capital put into the business after these dates and withdrawn or lost before the current accounting period is ignored.

Modification for Capital Non-Remunerative before the War.—An adjustment of considerable importance which has no counterpart in our procedure is that which is made in the profits standard because of capital which while invested in the business prior to the outbreak of the war became remunerative, or fully remunerative only after that time. The statute reads:[169]

"Where any capital employed in a trade or business which was so employed for the first time within three years [increased to six years in 1917][170] before the first day of August, nineteen hundred and fourteen, has only commenced to be remunerative or fully remunerative in the accounting period, an amount equal to the statutory percentage (6 and 8 per cent) or where interest has been earned on the capital, but at a rate less than the statutory percentage, an amount which would bring the interest earned on the capital up to the statutory percentage, as the case may be, shall be added to the profits standard."

No adjustment is required for capital "ploughed into the business" in a year subsequent to the pre-war period and still unremunerative during the accounting period.

Standard in Case of Change in Ownership of Business.—Where there has been a change in the ownership of a business after the commencement of the three last pre-war trade years, the owner is given the option of proceeding as though the concern were a new one (in which case he could ordinarily secure recognition of the purchase price as invested capital) or of adopting the stan-

[168] Finance (No. 2) Act, 1915, sec. 41 (3). For a discussion of invested capital for use in connection with the calculation of the percentage standard, *cf. infra*, p. 80 *et seq.*

[169] *Ibid.*, sec. 41 (4).

[170] Finance Act, 1917, sec. 26 (7).

dards of the old business as those of the new.[171] No such optional arrangement obtains under our law.

Modifications of Pre-War Standard in Case of Shipping.—The authorities found that in the case of shipping a considerable leakage was likely to develop[172] because of the fact that profits from the sale of ships were not ordinarily considered taxable under the English law. Consequently they introduced a special section in the 1916 Finance Act.[173] which attempted to meet the situation indirectly through a modification of the pre-war standard. This clause provided substantially that, in the case of a ship sold after the beginning of the war, the profit not being subject to tax, the Commissioners of Inland Revenue might insist that the pre-war standard of the ship before the sale be passed on with the ship to the purchaser. This would be expected in most cases to increase the tax liability of the purchaser and reduce the price at which the sale took place. The government in effect foregoes a possible tax on the prospective operating profits subsequent to the sale. In any case, the section shuts off possible evasion through the device of inflating invested capital by selling one's ships and replacing them by others, the exchanges both taking place on a high price level.[174]

Determination of Invested Capital

Invested capital as determined under the British rules is very much the same thing as when determined under our rules. In both cases, "proprietor's capital" is the fundamental concept. Unrealized appreciations are not recognized and borrowed money is excluded in both statutes. The chief differences are two: first, the British take a narrower view of what constitutes investment

171 Finance (No. 2) Act, 1915, Fourth Schedule, Part II, rule 1. In case the old standard is retained, the basis of computation of the profits for the current year must be the same as that of the pre-war years. It should be noted that the substitution of assets is not considered a change of ownership. *Ibid.*, rule 6.

172 *Cf. supra*, p. 69 *et seq.*

173 Sec. 47. For the details, *cf. infra*, Appendix A, III. A provision in the 1915 statute (Fourth Schedule, Part II, rule 6), aimed to prevent avoidance of the Duty by single-ship companies, was rendered virtually inoperative by this section.

174 Insurance money received from lost ships is not recognized in such a manner as to reduce the Excess Profits Duty which would be normally payable.

in the business, excluding everything in the nature of securities owned by the concern, and bank balances above the amount required for the purposes of the business, and, second, they ignore the liability side of the balance sheet and build up their invested capital by dealing entirely in asset items, excluding written-off depreciation or lost assets from the computation. In this country, the sum originally invested constitutes an irreducible minimum.

The British practice in refusing to recognize "outside" investments as capital invested and their refusal to grant wide exemptions from taxation to the purchasers of their war bonds, has simplified the calculation of invested capital in certain respects and complicated it in others.

Invested Capital—When Utilized in British Procedure.—Invested capital plays a much greater rôle in British procedure than is generally realized. This concept is utilized under the following specific circumstances:

1—As the basis for the establishment of the percentage standard. This standard, which is resorted to whenever its use will result in a lower charge against the taxpayer, is established by applying the statutory rate (ordinarily 6 and 8 per cent) to invested capital at the end of the last pre war trade year.

2—As the basis for adjustments in the profits of the current year because of increases or decreases in the amount of capital invested since the outbreak of the war. Such adjustments (amounting ordinarily to 9 or 11 per cent of the new capital introduced and 6 or 8 per cent of the old capital withdrawn) are made whether the profits standard or the percentage standard is used. Moreover, not only must the amount of the new capital introduced or the old capital withdrawn be calculated, but in order to make the computation it is necessary to determine the total amount of invested capital both for the current accounting period and for a point in time before the outbreak of the war. In case the profits standard is used, the pre-war invested capital is taken to be the average capital employed during the pre-war year or years. In case the percentage standard is used the pre-war invested capital is taken ordinarily to be the amount employed at the end of the last pre-war trade year.

3—As the basis for the establishment of a standard in the case of a concern which was not in existence for at least one year before the war. In such a case no profits standard is available as an option and the pre-war standard is simply taken to be the statutory percentage (ordinarily 9 and 11 per cent) applied to the average amount of capital employed during the accounting period.

It is apparent that there is scarcely an assessment into which invested capital does not enter. It must be calculated, at least roughly, in every case, but because of the practice in cases of increases or decreases of capital of making adjustments in current profits, the pre-war invested capital, once calculated, need not afterward be disturbed.

Rules Governing the Calculation of Invested Capital.—The British rules governing the calculation of invested capital are here quoted in full:[175]

1. The amount of the capital of a trade or business shall, so far as it does not consist of money, be taken to be—
   (a) so far as it consists of assets acquired by purchase, the price at which those assets were acquired, subject to any proper deductions for wear and tear and replacement, or for unpaid purchase money; and
   (b) so far as it consists of assets being debts due to the trade or business, the nominal amount of those debts subject to any reduction which has been allowed in respect of those debts for income tax purposes, and
   (c) so far as it consists of any other assets which have not been acquired by purchase, the value of the assets at the time when they became assets of the trade or business, subject to any proper deductions for wear and tear or replacement.

Nothing in this Part of this schedule shall prevent accumulated profits employed in the business being treated as capital.[176]

2. Any capital the income on which is not taken into account for the purposes of Part I of this Schedule, and borrowed money or debts, shall be deducted in computing the amount of capital for the purpose of Part III of this Act.

3. Where any asset has been paid for otherwise than in cash, the cost price of that asset shall be taken to be the value of the consideration at the time the asset was acquired, but where a trade or business has been converted into a company and the shares in the company are wholly or mainly held by the person who was

175 Finance (No. 2) Act, 1915, Fourth Schedule, Part III.

176 They are not treated as capital during the period when accumulated, however. Finance Act, 1916, sec. 52.

owner of the trade or business, no value shall be attached to those shares so far as they are represented by good will or otherwise than by material assets of the company unless the Commissioners of Inland Revenue in special circumstances otherwise direct. Patents and secret processes shall be deemed to be material assets.

With one slight exception, the addition of a clarifying statement regarding accumulated profits,[177] these rules have stood without modification since the passage of the law in 1915.[178]

Borrowed Money Excluded from Invested Capital.—As is the case in our law, the British statute excludes borrowed money from invested capital; "any borrowed money or debts" are deducted,[179] as is also any "unpaid purchase money" on assets.[180]

The British authorities have serious doubts regarding the soundness of this policy. They are inclined to believe that a more equitable tax would result if borrowed money were included in invested capital and interest on such sums deducted from tax-

177 Finance Act, 1916, sec. 52.

178 In this country invested capital, under the Revenue Act of 1918 means:

(1) Actual cash paid in for stock or shares.

(2) Actual cash value of tangible property, other than cash, paid in for stock or shares, irrespective of the par value of the shares, the excess over such par value being treated as paid-in surplus.

(3) Paid-in or earned surplus and undivided profits

(4) Intangible property (patents, trade-marks, good will, etc.) to an amount not to exceed the lowest of these values—

(a) the actual cash value at the time paid in,

(b) the par value of the stock issued therefor, or

(c) 25 per cent of the par value of the outstanding shares of stock on March 3, 1917, in respect of all intangible property paid in prior to that date and 25 per cent of the par value of the stock outstanding at the beginning of the taxable year in respect of all intangible property acquired after March 3, 1917.

Intangibles acquired with cash are fully recognized. For more detailed statement *cf.* Revenue Act of 1918, secs. 325-326.

The Revenue Act of 1917, differed in several respects: (a) it allowed as invested capital the value on January 1, 1914, of tangible property paid in for stock prior thereto, provided such value did not exceed the par value of the stock originally issued for such property; (b) it made a distinction between patents and other intangible property, allowing with respect to patents the cash value at the time paid in but not exceeding the par value of the stock issued therefor. A limitation of 20 per cent of the stock outstanding on March 3, 1917 applied to good-will, trade-marks, *etc.* For details see Revenue Act of 1917, section 207.

179 Finance (No. 2) Act, 1915, Fourth Schedule, Part III, rule 2.

180 *Ibid.*, rule 1.

able profits. They have no solution, however, for the problem of drawing a line of distinction between permanent and temporary debt or for taking into account the intangible element of personal credit.

Profits Accumulating During the Current Accounting Period.—The original statute recognized as invested capital "accumulated profits employed in the business"[181] as reflected in asset values. A clarifying amendment in 1916 specifically ruled out profits accumulating during the accounting period.[182] British and American statutes are in accord on this point.[183] However, the British practice of permitting returns for accounting periods of less than twelve months provided a method by which recognition of accumulated profits can be more speedily obtained. The concern which secures this earlier recognition, however, must pay its tax sooner than the concern which does not and the net effect is favorable to the taxpayer only when the continued possession of the tax money is less valuable to him than credit obtained through the application of the statutory percentage (9 or 11 per cent, normally) to the new capital. Moreover, in actual practice the British do recognize as invested capital profits accumulated in a current accounting period, in so far as a fixed investment in capital assets is made out of such profits.

"Inadmissible" Assets.—The British statute declares that "any capital the income on which is not taken into account for purposes of the Duty shall be deducted in computing invested capital."[184] This has the effect of excluding investments made by business concerns whose principal business does not consist of making such investments.[185]

The section quoted above is that which corresponds closely to our section defining "inadmissible assets,"[186] but the British are

[181] Finance (No. 2) Act, 1915, Fourth Schedule, Part III, rule 1.

[182] Finance Act, 1916, sec. 52.

[183] Revenue Act of 1918, sec. 326. Under our 1917 statute the Treasury did allow the inclusion of such earnings in the case of individuals. It is possible that our courts would hold that, under the language of the Revenue Act of 1917, current earnings invested in fixed assets during the year should be included in invested capital from the date of such investment, notwithstanding the Treasury rulings to the contrary.

[184] Finance (No. 2) Act, 1915, Fourth Schedule, Part III, rule 2.

[185] *Ibid.*, Part I, rule 8.

[186] Revenue Act of 1918, sec. 325 (a).

spared the trouble of specifying the conditions under which inadmissible assets shall change their stripes and be admitted, after all, to the computation of invested capital. Here such readmissions must be permitted because (1) taxable profits may have been derived from the sale of such assets in certain cases, or (2) in order to carry tax-exempt securities the concern has paid interest on borrowed money which is not deductible in calculating net income. In England they do not ordinarily tax gains through appreciation of capital. Neither do they have tax-exempt securities in important quantities nor, consequently, limitations on the deduction of interest on money borrowed to purchase or carry such securities. Their problem is comparatively uncomplicated and simple.

In our Revenue Act of 1917 appeared somewhat conflicting provisions as to the deduction from invested capital of borrowed money (from the liability side of the balance sheet) and inadmissible assets, that is, assets the income from which was not subject to the excess profits tax (from the asset side of the balance sheet). The conflict was reconciled by practically assuming that the inadmissible assets were acquired with the borrowed money and a deduction from the assets was required only to the extent that the inadmissible assets exceeded the borrowed money. The Revenue Act of 1918,[187] contains a much more complicated provision based on the principle that the capital and the borrowed money shall be considered to be invested in all assets in proportion. Thus:

Admissible assets ...	$100,000	Capital	$100,000
Inadmissible assets..	100,000	Borrowed money....	100,000

will give the taxpayer $100,000 invested capital under the Revenue Act of 1917 but only $50,000 invested capital under the Revenue Act of 1918.

The British practice in this respect is to consider each case in the light of its particular facts; to include or exclude investments on the consideration of whether or not the money so invested is properly held for the uses of the business and only temporarily invested in outside securities. Borrowed money is allocated to the investment assets or the business assets according to the facts in each particular case. Where the statutory percentage deduction is low (6 per cent on invested capital) it seems

[187] Sec. 326 (c).

the question is not deemed to be very important. Where the statutory percentage deduction has been raised by the Board of Referees the question of inclusion or exclusion of investment assets or the allocation of borrowed money is generally considered to be a matter for special ruling by the Commissioners.

The British are much more strict than we are in that they decline to recognize as invested capital any resources which are not used directly in the business or will not soon be so used. In this country the resources owned by the corporation are much more freely recognized, whether they be investments in other businesses, government bonds, or bank deposits.[188] In some cases the assignment of idle bank balances or investments in securities to corporations for use as invested capital has reached the proportions of an abuse. The recognition of our government bonds as invested capital, even when the income from those bonds need not be included in taxable profits[189] is an indirect bonus whose proportions are but faintly realized.

In Great Britain all investments by a business outside the concern itself are eliminated from invested capital, except when it can be shown that the investment is essentially temporary in its character and that the money will be needed for purposes of the business[190] in a short time, the period usually being set at one year. This rule applies to investments in Government securities[191] and to bank deposits as it applies to other investments. It has been insisted upon in some border-line cases in which the investment was very closely related to the purposes of the business in question. For example, a coal agent was refused permission to include in his invested capital investments which he had made in certain collieries with the purpose of securing the agency business involved in the disposition of the output of the collieries.

Accrued Taxes as Invested Capital.—The British practice is to regard the amount of income tax and excess profits tax as a liability from the date the tax is payable, and to require a deduction from invested capital of such amounts in computing the capital at that date.

188 *Cf. supra*, p. 12.

189 Revenue Act of 1918, sec. 325 (a).

190 In cases where the investment is excluded from invested capital, the income, of course, is deducted from taxable profits.

191 However the commissioners have not applied this rule so as to reduce, in effect, the pre-war invested capital of a concern.

Effect of Depreciation and Depletion upon Invested Capital.—The British practice with regard to deductions from profits for depreciation has been fully discussed in another place.[192] It only remains to consider here what effects these deductions, whose very allowance implies a diminution in value of the invested asset, have upon the invested capital of the concern for purposes of the Duty.

It will be recalled that the British build up their concept of invested capital from the items on the asset side of the balance sheet and do not avail themselves of the principle incorporated in our law which regards as inviolate the amount of capital originally invested in the business. The most important difference between the British and the American practice with respect to depreciation in relation to invested capital rests on this distinction. Here a concern's invested capital does not sink below the level of the original investment as represented by the item on the liability side of the balance sheet consisting of money or property (under certain limits) paid in for stock. It does not sink below that level for purposes of our tax even though the value of the total assets of the business have actually shrunk below that amount through the fact that depreciation has been inadequately provided for or the fact that depreciation funds have been lost or dissipated. In Great Britain, on the other hand, the allowance of a given deduction for depreciation involves automatically a reduction in invested capital as of the end of the period when the deduction is made without regard to any limitation such as the amount of the original investment. The statute merely says "assets . . . subject to any proper deductions for wear and tear or replacement."[193] Quantitatively the whole point is unimportant.

While it is true that the sum set aside for depreciation reserve is recognized as invested capital when used to purchase additional assets for the business, it is not so considered if it is invested outside the business. In this country we do not discriminate between investments within and without the business so long as the ownership of the capital continues with the concern.

It is interesting to note, however, that the British will recognize deductions from profits because of postponed renewals or repairs without insisting upon a corresponding reduction in the value of the asset for purpose of invested capital.

[192] *Cf. supra*, p. 48 *et seq.*

[193] Finance (No. 2) Act, 1915, Fourth Schedule, Part III, rule 1 (a and c).

The narrowness of the depreciation and depletion allowances[194] permitted under British income tax procedure reflects itself in invested capital. As has been seen, ordinary depreciation has been deductible only in the case of plant and machinery of business concerns. The general rule is that such deductions are proper only when the asset has diminished in earning power or when the expenditure on repairs has increased with the age of the asset. Of course if exceptional depreciation is applied for and secured (and such appeals are decided on the basis of individual applications), the deductions must be eliminated from invested capital. However, the situation is such that many assets, which in this country would be reduced in value [195] whether depreciation had been charged off by the concern or not, continue to appear in English calculations of invested capital at the full amount of their original cost.

The non-allowance of depletion under the income tax[196] has a marked effect upon the invested capital of mining and similar concerns. It is possible for them to continue to use as invested capital the full original cost of the property up to the time when the last bit of ore is extracted. The allowance for depletion for purposes of the Excess Profits Duty, which is indirectly given through the increased statutory percentage does not operate in such a manner as to reduce the amount of the figure representing capital invested. Patents, also, are included at their full value on the theory that their earning power remains unlimited until expiration.

Losses Through Bad Debts Deductible from Invested Capital.—The British deduct their losses for bad debts, when arriving at taxable income for income tax purposes, not, it is true, through the deduction of reserves for bad debts, but rather through the device of evaluating the debts due the business at the end of the period and charging off the estimated shrinkage, which amounts to very much the same thing so far as stabilizing annual losses is concerned. In constructing their invested capital for Excess Profits Duty purposes, the nominal amount of debts due the business is "subject to any reduction which has been allowed in respect of debts for income tax purposes."[197]

194 *Cf. supra*, p. 48.

195 Except for the limitation of the total original capital.

196 *Cf. supra*, p. 55 *et seq.*

197 Finance (No. 2) Act, 1915, Fourth Schedule, Part III, rule 1 (b).

In this country a bad debt is not deductible until the loss is actually established; no reserves for bad debts are recognized for income tax purposes. This has the effect of making it possible for a concern which nevertheless maintains a reserve for bad debts to carry that reserve to surplus at the beginning of the taxable year and utilize it as invested capital for the entire year.

Of course, if an English concern realizes more on a debt than its appraised worth, it will become taxable on the difference and the profits so increased will be measured by an invested capital standard which has been diminished by the amount of the under-appraisal. In this country such a concern would be given an invested capital standard based upon the nominal value of the debt and, in case part or all of it failed to materialize later, it would be free to deduct the loss from its profits. Take the case of a $20,000 debt arising in 1919 which is appraised at 50 per cent at the end of the year. The English concern would be taxed on a profit smaller by $10,000 than the American because the American could not deduct its reserve for the bad debt. But the English concern's invested capital would immediately drop by the amount of the $10,000. Next, suppose that after all the $20,000 debt is paid during the year 1920. The English concern is taxable upon $10,000 in that year but now has an invested capital which is smaller by $10,000 than that of the American concern.

Certain Losses Recognized as Invested Capital.—The Finance Act of 1917[198] gave the Commissioners special powers in computing the invested capital of concerns where, due to trading losses suffered during the six pre-war trade years, former assets had ceased to form part of the assets of the business or the indebtedness of the concern had increased. In such cases the commissioners may establish their invested capital "as though there had been no such loss of assets or increase of borrowed money or debts." There is no provision in our statute which corresponds to this precisely but our arrangement whereby invested capital is not reduced below the amount originally "sunk" in the business should be borne in mind in making comparisons.

Valuation of Assets Acquired by Exchange.—The general rule for valuing an asset which has been paid for otherwise than in cash is "the value of the consideration at the time the asset was

[198] Sec. 26 (6).

acquired,"[199] but this is subject to the restriction in case of stock received for good-will in certain incorporations.[200]

Good-Will and Patents.—Good-will is recognized as invested capital when paid for either in cash or in stock except that when individuals incorporate their business, receiving stock for their good will the transaction is not countenanced. The rule governing this exception reads as follows:

> "Where a trade or business has been converted into a company[201] and the shares in the company are wholly or mainly held by the person who was the owner of the trade or business, no value shall be attached to those shares so far as they are represented by good-will or otherwise than by material assets of the company, unless the Commissioners of Inland Revenue otherwise direct. Patents and secret processes shall be deemed to be material assets."[202]

Good-will, however, is so defined as to exclude patents and secret processes. These are deemed to be tangible property (material assets). Trade marks and trade names are considered to bear a close relation to good-will, although it is recognized that no distinct line can be drawn easily between these and patents. Under any special circumstances, therefore, the Commissioners of Inland Revenue may rule specifically.

The restrictive provision in the British Act as to recognizing good-will in the case of incorporation is strictly construed and unless the shares of the new company are wholly or mainly held by the person who was the owner of the former business, value is allowed to be placed on the good-will. Thus, in one case where the husband had been the owner of the business and on incorporation the wife received a large part of the shares allotted for good-will, the value of the good-will was allowed as invested capital of the company. Moreover, "wholly or mainly" as used in the statute is interpreted to mean about 95 per cent.

The treatment of expense of creating good-will presents an interesting feature of the British practice. In one case it appears

199 Finance (No. 2) Act, 1915, Fourth Schedule, Part III, rule 3.

200 *Cf.* following paragraph.

201 The provision giving the new concern the option of the standard of the old concern or the percentage standard on its own invested capital is applied in practice to "amalgamations," a term corresponding roughly to our reorganizations.

202 *Ibid.*

that a company had losses in the first five years of its existence amounting to a considerable sum, carried on the asset side of the balance sheet as "Profit and Loss Account." This was considered practically to represent an expenditure for good-will, although not so called, and to be properly allowable as invested capital.

The British practice of declining to recognize good-will as invested capital in cases of certain incorporations, narrowly confined though it is in its application, has been the cause of considerable inequality. The British have made little effort to alleviate the situation because of the temporary character of the tax. However, the British restriction is trifling and insignificant compared with the rigid, arbitrary 25 per cent limit applied to intangibles by our law.[203] Patents, it will be recalled, are classified as intangibles along with good-will and made subject to the limit. In Great Britain patents and secret processes fall entirely outside their very moderate limitation.

The Statutory Percentage

General.—In the original act the statutory percentage was made "6 per cent in the case of a trade or business carried on or owned by a company or other body corporate, and 7 per cent in the case of any other trade or business."[204] In accounting periods ending on or after January 1, 1917 (on which date the 80 per cent rate came into effect), the 7 per cent was increased to 8 per cent.[205] From the same date other increases were made effective, in so far as the rate was used for certain particular purposes. Thus the general statutory percentages of 6 and 8 per cent were increased by 3 per cent (to 9 and 11 per cent) first, when used to ascertain "the deduction to be made from the profits of the accounting period in respect of increased capital," or second, when used to ascertain "the pre-war standard of profits in cases where there has not been one pre-war trade year."[206] It is proposed in 1920 to make these rates 10 and 12 per cent.

It is particularly worthy of note that the amendment of 1917 specified the use of the increased rate in the calculation of the deduction to be made from the profits of the current period in respect of increased capital without its application to the calcu-

203 Revenue Act of 1918, sec. 326 (4 and 5).

204 Finance (No. 2) Act, 1915, sec. 40 (2).

205 Finance Act, 1917, sec. 26 (2).

206 *Ibid.*, sec. 26 (1).

lation of the addition to be made in respect of decreased capital.[207] That is, the theory behind the changes was (1) that a greater differentiation should be made between incorporated and unincorporated business (hence the increase from 7 to 8 per cent) and (2) that capital invested since the outbreak of the war should be given a greater allowance than that invested earlier (hence the additional 3 per cent in the two cases specified).

The differentiation between incorporated and unincorporated businesses of 1 per cent before January 1, 1917, and 2 per cent, thereafter, was designed to compensate for the advantage possessed by the incorporated concern with respect to the fact that they are permitted to deduct salaries of managers in determining their profits.[208]

The following tabulation summarizes the standard percentages as they now stand:

STATUTORY PERCENTAGE

Accounting periods ended after 31st December, 1916. Not including increases by the Board of Referees.

Purposes for which Percentage is applicable	Company or other body corporate	Any other trade, or business
Percentage Standard where optional with Profits Standard	6	8
Percentage Standard (obligatory) where there has not been one pre-war year	9	11
Deduction from profits of Accounting Period where capital has been increased	9	11
Addition to profits of Accounting Period where capital has been decreased	6	7
Addition to Profits Standard where capital has been unremunerative or not fully remunerative	6	

Applications for Increase.—The Finance Act of 1915 specified that the statutory percentage then established, 6 and 7 per cent, should be subject to increase in certain cases upon appeal.[209]

207 Finance Act, 1917, sec. 26 (2).

208 *Cf. supra*, p. 14. A similar situation in this country during the year 1917, when the excess profits tax applied to partnerships and individuals, was met by permitting concerns which had made no deductions for salaries to charge off an equitable amount which varied from case to case. It was interesting to find that the British regard this as impossibly arbitrary procedure. Yet we regard the degree of power delegated to their administration as alarmingly great!

209 Finance (No. 2) Act, 1915, sec. 40 (2).

The increased rates which went into effect on January 1, 1917, were specifically stated to be in addition to any special increases granted as the result of such appeals.[210] A full treatment of the process and results of appeals for increases in the statutory percentage will be found in connection with the discussion of Appeals on page 115 *et seq*.

Administration—General

Importance of Good Administration Recognized.—The English appear to realize more keenly than do we in this country the fundamental importance of good administration of tax laws generally and particularly of a law such as the Excess Profits Duty which requires the very finest ability in analyzing the accounts and making the complicated adjustments. The establishment of the Duty was delayed some time until assurances could be given that the administration could be properly cared for. In introducing the measure Mr. McKenna displayed a lively appreciation of the fact that the success of the tax depended upon the quality of the administration. As he contended, the question of increasing the taxes "is as much a question of machinery as anything else. Every new tax imposes a new burden upon the Board of Inland Revenue and the Office of Customs and Excise. They have a certain staff—an admirable staff, but necessarily limited in size—and we have to take care, unless our whole proposals for taxation are to prove a fiasco, that the duties thrown upon the Board of Inland Revenue and the Customs and Excise are duties they can perform in the course of the financial year."[211]

This anxiety lest taxes should be imposed which would prove too difficult to be well administered appears again and again in the debates. Thus in discussing possible new taxes in 1918 Mr. Bonar Law declared that "It has always been the pride of the British Government in regard to taxation that evasion should not be permitted"[212] and he rejected certain proposals because adequate administration could not be provided.

This recognition of the importance of the administrative work impressed the writer deeply in the course of his survey. It appeared to be one of the most striking points of contrast with the American situation. The Chancellor of the Exchequer, for ex-

[210] Finance Act, 1917, sec. 26 (3).

[211] Debates, 74: 845.

[212] *Ibid.*, 105: 709.

ample, evidenced great pride in the skill and ability of the Inland Revenue. The same spirit was indirectly shown when others expressed the most complete scorn for those countries which permitted lax administration of their revenue laws.

Wide Discretion Vested in Administrative Authorities.—However, while the English realize the necessity of building up a civil service adequate to the administrative task involved in a new tax, once they feel they have a dependable corps of administrators they do not hesitate to vest them with great authority and responsibility. A mere reading of the statute is sufficient to show the striking extent to which they depend upon administrative discretion in assessing and collecting the Duty. Upon nearly a score of points the act grants the Commissioners of Inland Revenue discretionary power or power to give particular directions. The power is usually granted in broad terms. Thus, if in certain cases the commissioners are convinced that there should be changes in the Fourth Schedule which contains the rules for calculating profits, invested capital, statutory percentages, etc., they are given "power to allow such modification of any of the provisions of that schedule as they may think necessary in order to meet the particular case."[213] Among the powers granted them are these: rejection of frivolous and vexatious applications to the Board of Referees;[214] postponement of payment of Duty in cases under appeal;[215] determination of length of accounting period where accounts are irregularly made up or not made up;[216] permission to pay by instalments;[217] treatment of a company as a firm and directors as partners,[218] *etc., etc.*

Size of Administrative Problem.—The proportions of the administrative task cannot be guaged in this case by the mere number of assessments, nor can they be grasped by a numerical comparison between the two countries. Other elements are of great importance, such, for example, as the complexity of the laws administered and the portion of the administrative work which is shifted to the shoulders of the taxpayer himself.

So far as the comparative complexity of the laws is concerned,

213 Finance (No. 2) Act, 1915, sec. 40 (3).

214 *Ibid.*, sec. 42.

215 *Ibid.*, sec. 45 (6).

216 *Ibid.*, sec. 38 (2).

217 *Ibid.*, sec. 45 (1).

218 Finance Act, 1916, sec. 49 (1).

the advantage of simplicity lies with Great Britain, although the advantage is not so decisive as might be assumed at first glance. For, after all, the British Standard is an alternative one and the calculation of invested capital must be made in approximate fashion in almost every case. The administrators state that fully 80 per cent of the assessments are ultimately made on the basis of the profits standard, rather than the percentage standard, but even when the profits standard is used there are the modifications to be made because of variations in invested capital. However, the calculation of invested capital is decidedly less complicated under the British statute than under ours, while determination of profits is probably more so, due to the adjustments necessary to eliminate investment income and capital gains and to make the collection-at source adjustments. The profits standard is, of course, more simple than the percentage standard and since with each passing year there is an increase in the percentage of concerns using the latter because of the initiation of new businesses and transfers in ownership of old ones, the British administrative problem constantly tends from this cause to become somewhat more complicated.

When one comes to consider the distribution of the labor of assessment between the administration and the taxpayer, the case is very plain. In Great Britain the Inland Revenue has assumed a much larger share of the burden than our Bureau of Internal Revenue. In England the imposition of the Duty imposed practically no additional burden of calculation at all upon the taxpayer. The local tax "surveyor" ordinarily already had on file information necessary to determine the liability of the concern. In cases of difficulty this surveyor supplied the taxpayer with skilled advice and assistance in the preparation of returns and ordinarily was able to arrive at an "agreement"[219] without requiring an appreciable amount of effort and time on the part of the taxpayer. The fact that the taxpayer can trust the surveyor to protect his interest as well as that of the government is a feature which impresses the American observer.[220]

About 50 per cent of British business concerns report on the basis of accounting periods which do not coincide with the calendar year. This results in a desirable distribution of the assessment work throughout the twelve months. On the other hand,

219 *Cf. infra*, p. 107 *et seq.*
220 *Cf. infra*, p. 103 *et seq.*

the British practice of establishing assessments for short accounting periods, sometimes as short as three months, tends to increase the work of the surveyor.

The figures of actual assessments made in the two countries are not satisfactory and complete. The Commissioners of Inland Revenue reported that in 1917 they made "about 60,000" and in 1918 "about 46,000" assessments of Excess Profits Duty and Munitions Levy.[221] Our Bureau of Internal Revenue has announced that in 1917, 232,079 corporations reported a net income but how many of these were subject to excess profits tax is not specified.[222]

Inland Revenue officials stated to the writer that the Excess Profits Duty had been administered without any expansion in the regular staff except for the addition of clerical assistance.[223] Moreover, in spite of heroic measures to hold men in this important public work, by 1917 more than 3000 men had left the Inland Revenue to join the fighting forces.[224]

Success of the Administration.—If general praise from everyone, including the taxpayers themselves, is any criterion of success in the administration, the assessment and collection of the British Duty has been very well done. The writer, after contact with officials of the Inland Revenue, with accountants whose practice brought them into close touch with the administration and with taxpayers, is filled with admiration for the efficient manner in which the machinery has operated and the general satisfaction it has given. Everyone agreed that the service had been promptly and fairly performed, that in spite of the complexities of the law, there had been almost no bungling, that outright evasion, at least during the war, had been practically non-existent and that the integrity as well as the intelligence of the administrative force had been beyond praise. In the course of his questioning on this point, the investigator heard only two criticisms. One manufacturer complained of what he thought was a tendency on the part of certain local surveyors to suggest original assessments which

221 Report 1917, p. 21; 1918, p. 21.

222 Statistics of Income compiled from the returns for 1917 under the direction of the Commissioner of Internal Revenue (Washington, 1919), p. 17.

223 *Cf.*, also, Cmd. 288-1, p. 6.

224 Debates, 93:379. Apparently this figure includes losses of other employees than the members of the technical staff. *Cf. infra*, p. 102.

were higher than they could hope to establish ultimately in the face of opposition from the taxpayer. He based his criticism primarily on one personal experience but he stated that he had heard of similar cases. One banker hinted at unevenness in the application of the provisions permitting special allowances, stating that a friend had boasted of having been able to get concessions in excess of a fair amount. This was the sum total of the criticism which the writer was able to extract. In other words there was practical unanimity of opinion regarding the complete success of the administration, from the serving of the original notices by the local surveyor to the disposition of the highest appeals by the Board of Referees.

Spirit of the Administration.—To a considerable extent, the satisfaction which the British feel with respect to the administration of their Duty is due to an immaterial element not included in the statutes, full as they are of special relief provisions and saving clauses. It is due to the spirit in which the administrator approaches his task. He meets the taxpayer with every disposition to be fair both to him and to the Treasury, and in cases of doubt as to what is fair, to be generous to the taxpayer. This attitude on the part of the local surveyors is deliberately fostered and encouraged by the higher officials of the Inland Revenue. The instructions issued to surveyors contain specific injunctions regarding the attitude to be assumed toward the taxpayer. There is full appreciation of the importance both of securing the taxpayer's coöperation and of getting assessments definitely settled in such a manner that they will not be constantly reopened for minor adjustments and corrections.[225] In the case of the Excess Profits Duty particularly, with its high rates and its many opportunities for disagreement, it has been considered wise to conduct the administration along broad lines. The assessors have not failed to utilize their administrative discretion. As one of them remarked: "We wipe off £20,000 one way or another as though it were a 'half-penny.'" The Board of Inland Revenue has specifically said to the local surveyors that "owing to the present high rates of taxation" they desired "that in doubtful cases the allowances granted in calculating Excess Profits Duty should err on the side of generosity rather than otherwise."

Again, in connection with the apportionment of the income

225 *Cf. infra*, p. 103 *et seq.*

from long-term contracts,[226] the local surveyors are specifically ordered to apply the special procedure whenever it appears that it would result in an important alteration of the charge to the advantage either *of the taxpayer* or of the Revenue. The practical result of the spirit and the organization of our own administration is to put the initiative of claiming the benefits of such special procedure squarely upon the shoulders of the taxpayer alone, who would benefit from its adoption.[227]

There could scarcely be a greater contrast than that afforded by the attitude of the British administration and that of the ordinary local Collector of Internal Revenue in the United States, and much of the dissatisfaction with direct taxation which unquestionably exists in this country is traceable to the strict, petty, stickling over minor, inconsequential details. Long experience has taught the British the importance of vesting discretion in capable hands and insisting that that discretion be used fairly but in a generous spirit.

Assessment and Collection

With regard to both organization and procedure the study of the administration of the British Excess Profits Duty yields valuable suggestions for the improvement of the American system. In general the British administration is more extensive and comprehensive and at the same time much more decentralized than our own. The general plan of procedure is quite different, the Department of Inland Revenue assuming a much greater share of the administrative burden and leaving less to be carried by the taxpayer himself. Fortunately the British are able to utilize the excellent machinery built up through seventy-five years of income tax administration.

Machinery of Assessment and Collection.—However, while the administration of the Excess Profits Duty is interlocked with that of the income tax, it is distinctly different in several important particulars. There is not the complete merging of the assessment and collection of the two taxes which is found in this

226 *Cf., supra*, pp. 40-41.

227 Similar examples are numerous. The provision for the adjustment because of changes in invested capital is not strictly applied except in the interest of the taxpayer. Again, the Treasury does not withhold the benefits of Sec. 24 (4) of the Finance Act of 1918 from the taxpayer even though by a strict reading they could do so.

country. The general control of the administration of the Excess Profits Duty was given to the Commissioners of Inland Revenue, a body corresponding roughly to our Bureau of Internal Revenue. This body was already in charge of the income tax. In arranging the administrative plan for the income tax of 1842 these commissioners[228] had been vested with control of the tax from the point of view of safeguarding the interests of the Treasury. However, the powers of assessment and collection were withheld from the Commissioners of Inland Revenue and vested in unpaid, honorary, local boards. The Inland Revenue's power was primarily supervisory and regulative. The local boards, called the General Commissioners, appointed assessors and collectors annually. The Inland Revenue, to exercise its function of inspection, divided the country with "surveys" (which, by the way, did not coincide with the districts presided over by the General Commissioners) and recruited a force of surveyors. These surveyors appeared as representatives of the Treasury to check the work of the assessors, to make sure that the law in general was properly interpreted and administered. They were without formal power either to demand access to original accounts or to make an assessment but they were skilled, permanent, paid officials, engaged constantly in the application of a complicated statute, with a training in administration and with a knowledge of how problems were met in other parts of the country. In them the lore of procedure accumulated and upon them as the years went by the honorary General Commissioners and the annually-appointed assessors and collectors came to depend to a greater and greater extent. Even the "Additional Commissioners" appointed by the General Commissioners to determine assessments under Schedule D learned to defer to the judgment of the surveyors until their own function in the course of time degenerated in many districts to mere formal approval of settlements worked out by the surveyors. The situation as it exists today is aptly stated by Sir Thomas Collins, Chief Inspector of Taxes, in his testimony before the Royal Commission on the Income Tax[229] in 1919: "In practice, as is inevitable, it is the permanent whole-time official, the Surveyor of Taxes, whose whole working life is devoted to this highly technical subject matter, who shoulders the major part of the burden of examining returns and settling liabilities. It is

[228] Under a different name.

[229] Cmd. 288-1, p. 15 *et seq.*

he who comes into hourly contact with the taxpayer both orally and by correspondence, who checks the returns made, examines accounts, institutes inquiries, clears up doubtful points, and generally carries the work of ascertaining liability up to the point at which assessments are ready for allowance by the Commissioners. All notices of appeal against assessments are sent to him, he collects the information necessary to enable the points at issue to be determined, investigates the particulars received, and in all but a small fraction of the total number of cases comes to agreement[230] with the taxpayer without the Commissioners being troubled to do more than confirm the settlements which have been arrived at."

Although the elaborate machinery of local honorary boards with annually appointed assessors and collectors is generally recognized as obsolete and although everyone knows that the surveyors do practically all of the work,[231] strong opposition has always developed to any proposal for change. However, in mapping out a scheme of administration for the purposes of the new Excess Profits Duty, a clean break was made and the surveyor vested with the power corresponding to that which he had long exercised without formal authority. This was accomplished by giving the Board of Inland Revenue directly the power to require returns and make the assessments, which power the Board has delegated in large measure to its subordinates, the surveyors. Thus it comes about that the General Income Tax Commissioners have nothing to do with the Excess Profits Duty except in connection with certain types of appeals.[232] Assessments are determined and collection notices are served in ordinary cases by the surveyors.

Board of Inland Revenue.—As has been noted, the Commissioners of Inland Revenue, also referred to informally as the "Board of Inland Revenue," are charged by the statute with full responsi-

230 *Cf. infra*, p. 115 *et seq.*

231 Evidence submitted to the Royal Commission on the Income Tax showed that in 22 divisions the number of adjustments made by the surveyors and accepted by the Commissioners was 66,583, the number of appeals heard personally by the Commissioners was 1,263 and the number of taxpayers who appeared personally before the Commissioners to prove formally their title to sums previously agreed upon with the Surveyor was 223. Cmd. 288-1, Appendix 4, p. 31.

232 *Cf. infra*, p. 119 *et seq.*

bility for the "care and management"[233] of certain specified sources of revenue among which are included the Income Tax and the Excess Profits Duty. This board, like our Bureau of Internal Revenue, forms a part of the Treasury and is accountable technically to the Lords of the Treasury but actually to the Chancellor of the Exchequer. From its quarters in Somerset House it supervises the assessment and collection of its revenues, transfers its collections to the Exchequer and performs such other duties as the Chancellor may assign to it, such, for example, as the formulation of revenue proposals and the preparation of legislation.

The Board of Inland Revenue has an organization for the accomplishment of its functions which consists in the main of a permanent secretary, a number of assistant secretaries, a staff of inspectors, and a force of surveyors and assistant surveyors. In the administration of the Excess Profits Duty the "exception principle" of management has been fully utilized, the general rules of procedure being formulated and communicated to the rank and file of the surveyors, who were then expected to operate on their own initiative as far as possible, settling all except the most difficult and important cases without calling upon their superiors. The work is thus decentralized, the details kept in the offices of the surveyors, and the time and effort of the higher officials conserved for the consideration of special problems. The general tendency, moreover, is distinctly in the direction of greater and greater decentralization.

The formulation of the official interpretation of the Duty and the preparation of the instructions to the surveyors were entrusted to a small informal committee of high officials in the Inland Revenue which was formed shortly after the passage of the Act. Later the special problems which arose in the course of the administration were placed before this committee for consideration. It was a body too informal to have a definite name or title. It consisted of four men, three being Secretaries to the Board and one a member of the staff of inspectors. It performed approximately the same duties as the groups of economists and business men

233 The Minutes of Evidence of the Royal Commission on the Income Tax which was sitting in the summer of 1919 contain full particulars regarding the English administrative system. The evidence is printed in seven large volumes (Cmd. 288-1 to 288-7) together with an index (Cmd. 288-8) and an abstract (No number). The report itself is published separately (Cmd. 615).

known as the Excess Profits Tax Advisors and Reviewers performed for our Treasury. It should be especially noted that this body was entirely separate from the Board of Referees specifically established in the act to care for certain appeals and cases of unusual hardship, with which our "advisors" and "reviewers" are very often compared.

The Technical Staff of the Board of Inland Revenue.—The "technical staff" of the Board of Inland Revenue consists of the inspectors, the surveyors and the assistant surveyors. The total authorized number of the staff is 1225, but in the summer of 1919 there were some 80 unfilled positions.[234] There are 601 surveyors' districts each in charge of a surveyor, who often has the aid of assistant surveyors.

The remuneration paid the members of the technical staff is not large but there must be taken into account the various indirect emoluments which accrue to the English civil servant. In addition to security of tenure and liberal pension provisions, the positions carry with them a marked degree of social prestige. Brilliant and meritorious service is sometimes rewarded by a decoration and even by a knighthood. The salary scale as it stood in the summer of 1919 was as follows—the figures being subject to additions through special war bonus:

Number of Officials		Range of Salary £
120	....	150 to 250
600	....	250 to 500
320	....	550 to 700
160	....	750 to 900
22	....	925 to 1000
2	....	1100
1	....	1200
1225		

The technical staff is ordinarily recruited by competitive examinations and the positions are sought in many cases by well-trained university men. New members to the staff are ordinarily first made assistant surveyors and placed under the direction of an experienced man. After a period of training they are put in charge of a district and thrown upon their own responsibility. As a matter of policy, men are usually assigned to strange districts and are given important work to do while still very young.[235]

234 Cmd. 288-1, p. 15.

235 Sir Thomas Collins testified that he was placed in charge of a district before he had reached the age of 23. *Ibid.*, p. 21.

Special merit is recognized by quick promotion. In general, advancement in the service is said to depend upon seniority only to a minor extent and factors such as attention and regularity in their duties, industry and faithfulness are given great weight. An ability on the part of the surveyor to meet his own problems and to settle cases by agreement without constantly leaning on his superiors is highly valued.[236] The danger of encouraging surveyors to make settlements at too great a cost to the Revenue is avoided by careful inspection and by the transfer of surveyors from district to district.

It has been pointed out that during the two years 1917 and 1918 the total number of Excess Profits Duty assessments made was about 106,000.[237] This would average about 175 for each surveyor, or 87 per year. If it be assumed that 150,000 American corporations out of the 232,079 which report a taxable income are subject to excess profits tax, it would appear that to provide this country with the same assessment equipment would involve the establishment of some 1700 districts in place of the present 64 collection districts—or about 35 to each state.

It must not be thought, however, that the local assessors give complete satisfaction and make entirely superfluous the use of private lawyers and accountants in the preparation of tax returns. It is true that they do much of the work which in this country is performed by the taxpayer or his "tax expert," but they are, of course, busy men and can give only a moderate amount of time to advising each taxpayer regarding the preparation of his assessment data. Some complaint has been made of the inadequacy of the force of surveyors, large as it is as compared with our own.

Relations between Surveyors and Taxpayers.—The relationship between the English taxpayer and the local tax official is strikingly different from that which exists in the case of the American taxpayer. Here the chief functions of the local official are the mechanical ones of distributing forms and accepting checks. Advice he gives when it is requested but, where the issue is material, wise taxpayers place little dependence upon his counsel. The general principle of our procedure is that of self-assessment, checked by a subsequent audit. The British prin-

236 Cmd. 288-1, p. 21 *et seq.*

237 *Cf. supra*, p. 94 *et seq.*

ciple is that of a definite original assessment *by* the surveyor after consultation and agreement on disputed points.

Self-assessment, such as we attempt, is possible only if the taxpayer is fully informed regarding the law and its interpretation and consequently the Bureau of Internal Revenue publishes broadcast appallingly large quantities of explanatory matter—regulations, treasury decisions, rulings, letters of instructions, notes and memoranda. The tax returns, when filed, are supposed to conform to the interpretation laid down in these documents. In other words, each taxpayer is supposed to qualify as an expert in procedure and to assess himself in accordance with departmental interpretation. If he departs from this interpretation he will be subject to correction, and, perhaps, to penalty if the irregularity is noticed when the return is audited. If he disagrees with this interpretation he may go to the courts for his remedy. Much of the dissatisfaction with the present federal income and profits taxes arises from irritation caused by the burden of preparing assessments under these conditions.

In sharp contrast with the arrangement just described the English place the assessment burden squarely on the local tax official—the surveyor. The taxpayer is asked to submit a return to him setting forth certain facts from his books and may be requested to furnish him with copies of his original Trading Accounts, his Balance Sheet and his Profit and Loss Accounts. In due time the assessor informs him of his tax liability, having checked over the figures in the meantime and conferred with him to any extent necessary. The taxpayer, however, is relieved of the necessity of taking the initiative in applying an interpretation of the law to his own particular case.

It is frankly recognized that assessments of the type made under an excess profits or income tax cannot be arrived at with absolute accuracy because of the valuations involved which rest fundamentally upon individual judgment and opinion. Consequently the opportunity is provided for discussion and compromise on the many points concerning which there may be differences of opinion, particularly those involving valuations. The limitations within which the surveyor may exercise his discretion are carefully defined and only the important irregularities are passed up to the inspectors or to Somerset House. Even then the decisions of these higher officials are made effective through the local surveyor. He also issues the notices, even those

relating to collections. Full provision is made for administrative appeals,[238] where decisions are arrived at in the spirit of arbitration.

As a result of this different distribution of assessment functions in which the surveyor is given a high degree of authority and responsibility a situation arises in which it is neither necessary nor desirable that the taxpayer be required to become fully informed as to treasury interpretation and departmental procedure. Consequently the Board of Inland Revenue issues no flood of interpretative material which it asks the taxpayer to digest and accept as a rule of action. He has the statute and almost nothing more—for the eight-page leaflet[239] given him with his form contains little else than a digest of the statute. In this leaflet he is told that "information relating to any of these subjects can be obtained from the Surveyor of Taxes by persons concerned." This official will explain to him how the law has been applied to his particular case and is willing to discuss the reasonableness of the interpretation. If dissatisfied with the final position of the surveyor the taxpayer may appeal.[240]

Assessment Procedure.—The statute declares[241] that "The Excess Profits Duty shall be assessed by the Commissioners of Inland Revenue, and shall be payable at any time, not being less than two months, after it is assessed." There is also the following specific statutory authority to require returns: "The Commissioners of Inland Revenue may, for the purposes of this Part of this Act, require any person engaged in any trade or business to which this Part of this Act applies, or who was so engaged during any accounting period or pre-war trade year, to furnish them within two months after the requirement for the return is made, with returns of the profits of the trade or business during the accounting period or pre-war trade years and such other particulars in connection with the trade or business as the Commissioners may require."[242]

As has been seen[243] the Board of Inland Revenue has delegated

238 *Cf. infra,* p. 115 *et seq.*

239 Form No. 1 A—E. P.

240 *Cf. infra,* p. 116 *et seq.*

241 Finance (No. 2) Act, 1915, sec 45 (1).

242 *Ibid.,* sec. 44 (1). *Cf.,* also Finance Act, 1916, sec. 47 (c).

243 *Cf. supra,* p. 99 *et seq.*

to the Surveyors power to exercise their functions of assessment in all but the cases of exceptional difficulty.

Person Assessed.—The person subject to assessement is the one "owning or carrying on" the business "for the time," or his agent.[244] Where there has been a change of ownership the Commissioners have power to assess the former owner for the duty up to the date of sale. This enables the Commissioners to reach the former owner in a case where he has made large profits but where the purchaser has lost.

The Initiation of the Assessment.—Unlike the British income tax which is assessed at one date with respect of accounting periods ending within the preceding twelve months, but like our own income and excess profits tax, the Excess Profits Duty is assessed shortly after the close of the accounting periods, whenever they chance to occur. The onus of initiating the assessment legally lies, as with us, upon the person subject to the tax. The original act, passed December 23, 1915, provided that every person chargeable to the Duty should give notice to the Inland Revenue before January 31 following.[245] Subsequent amendments made the limit for giving notice two months.[246]

The surveyor not only has these notices of liability as a basis for his list of taxable concerns, but he has in addition the income tax data which have been submitted in his district, all properly filed away and available for purposes such as this, as well as certain confidential material dealing with war contracts with the government. Acting upon these notices of liability and this additional information, the surveyors make the technical "requirement for the return"[247] by sending return forms to the concerns by registered mail. If no response is received within two months a reminder is mailed. In cases of continued delay or in cases where for any reason a definite assessment cannot be arrived at the Surveyor in order to prevent the improper inflation of invested capital for the succeeding period because of unassessed duty, makes an arbitrary assessment not later than ten months after the close of the accounting period.

[244] Finance (No. 2) Act, 1915, sec. 45 (2). No liability attaches to the purchase of trading stock for Duty levied on the profits of the sale by sec. 35 of the Finance Act of 1918.

[245] *Ibid.*, sec. 44 (2).

[246] Finance Act, 1916, sec. 45 (3); *ibid.*, 1917, sec. 20 (3).

[247] *Cf. supra*, p. 100.

The Determination of the Assessment.—Upon receiving the return form, properly filled out, the surveyor proceeds to examine it, to confer with the concern upon any doubtful points and to calculate the assessment. In the course of this process he makes every endeavor to arrive at some mutually satisfactory solution of problems which may arise between the taxpayer and himself. However, if he finds it impossible to agree[248] with the taxpayer, he proceeds to fix the assessment at the figure which he believes to be equitable. The taxpayer may give the surveyor notice of appeal within 30 days after the assessment has finally been served upon him. Before mailing the formal notice of assessment, the assessor includes the item in a list which he sends to the Commissioners of Inland Revenue for their formal approval Upon receiving assurance that his list has received the sanction of the board the notices of assessment are mailed. Payment is due within two months after service of the notice.

Additional assessments may be made by the Commissioners of Inland Revenue at any time within three years after the date of the original assessment, but they may make no additional assessment in any case where the amount of the original assessment has been reduced on appeal to the General or Special Commissioners or by any court by which an appeal has been reheard.

Agreements with Taxpayers.—Agreements in the nature of a compromise, assented to by both taxpayer and governmental representative, do not form a prominent part of American procedure. The Treasury conceives it to be its function to make a strict interpretation of the law, resolving questionable points in favor of the government. Consequently a reasonable interpretation of a statute is ordinarily arrived at only after taxpayers have carried the narrow Treasury interpretations to the courts, which in the past have shown a general disposition to decide doubtful points in favor of, rather than against the taxpayer. This attitude on the part of the Treasury has tended to generate a spirit of animosity and bitterness in the taxpayers, already often irritated by the labor involved in preparing returns and the difficulties involved in securing decisions on moot points.

In England the general situation is different. There the Inland Revenue has learned long ago that nothing is more necessary in a tax of this type than a spirit of liberality in its administra-

[248] *Cf.* following section.

tion.[249] *Instead of construing every possible point in favor of the government, the case for the taxpayer is given at least equal consideration. In cases of difference of opinion as to valuations* the administration is quick to make concessions on the basis of evidence submitted by the taxpayer. The ordinary surveyor is impressed with the notion that it is his business to settle questions rather than merely to pass them on mechanically to some other bureau official who may be in a less favorable position than himself to make a wise decision. Consequently the surveyor is encouraged[250] and supported in a policy of arriving at "agreements" with taxpayers. These agreements virtually carry the force of a bargain entered into by two responsible parties and in the absence of fraud or deceit they are not disturbed. The taxpayer gets certainty and quick decisions. The government keeps up to date with its work and gets its money promptly,—probably more money than otherwise. British officials express amazement at our cumbersome methods of administering a tax of the type of the Excess Profits Tax.[251]

Simplicity of Forms.—The forms used in the administration of the British Excess Profits Duty are refreshingly simple and free from troublesome complications. This desirable result is obtained chiefly as a corollary of the administrative proposition that the tax official and not the taxpayer shall administer the law. The surveyor asks for certain specific figures, supported in some cases by copies of certain accounts. He then makes the adjustments, establishes the taxable profit and determines the Duty. The detailed explanatory material is confined to a small separate

249 *Cf. supra*, p. 97.

250 *Cf. supra*, p. 103.

251 The manner in which important adjustments are left to the surveyors and the general attitude of the administration toward the taxpayer are illustrated by the following occurrence. A deputation from the Association of Chambers of Commerce to the Chancellor of the Exchequer raised the question as to the reserves which might be accumulated against probable losses on contracts entered into before the war or early in the war. The following colloquy ensued:

"The Chancellor of the Exchequer: But I understand the principle on which we go is that you are allowed to hold back in suspense a sufficient amount of what would be the Excess Profits Duty to cover what apparently is the loss on pre-war contracts.

"Mr. George Wigley: Are we allowed to do that?

"Mr. G. W. Currie: The surveyors are willing to discuss the matter." Cham. of Com., 1918, p. 16.

leaflet which can be enclosed with the return form. Care is observed not to ask the taxpayer for any unnecessary data.

The complaint so often heard concerning the complexity of our forms in this country probably cannot be eliminated until an administrative organization can be built up which will permit a distribution of the work of assessment similar to that found in Great Britain.

Secrecy.—Under a theory of procedure such as that outlined above, in which the surveyor is put into direct touch with the taxpayer and given definite authority to arrive at an assessment, there are certain advantages in a policy of secrecy with regard to interpretation and practice. The view taken by the British is that the taxpayer should conduct his business and keep his accounts as though there was no such thing in existence as an income or profits tax. Detailed knowledge as to exactly how the Inland Revenue will apply the tax may lead, they feel, to "rigging" the accounts and resorting to various devices for evasion. Consequently in place of the fullest publicity of rulings, precedents and instructions, there is a policy of secrecy. The surveyor is furnished with an elaborate book of instructions, which in the case of the Excess Profits Duty consisted of three hundred printed pages, containing a complete manual of procedure. But this book is for official use only and is strictly confidential. Even the forms are for the most part considered confidential. Whatever may be said as to the general merits of this policy, it does have a tendency to add to the strength of the position of the surveyor when he enters into a conference with the taxpayer in order to determine the extent of his liability.

In addition to being in a position to expound the procedure to the taxpayer the surveyor often possesses an advantage because of information confidentially furnished him by other governmental departments regarding the business of the taxpayer. For example, particulars relating to contracts made during the war by the War Office, Admiralty and Minister of Munitions were forwarded to surveyors and were used by them as a basis for specific inquiries as to liability to tax. Used with discrimination, such material has great possibilities as a check on the accuracy of accounts, especially since the taxpayer never knows the precise extent of the knowledge of the surveyor.

The influence of the policy of secret instructions and confidential information is of considerable importance. Of course

without capable local officers such a policy would be ridiculous. However, assuming this point to be covered, the policy undoubtedly contributes materially toward accomplishing the desired end of a definite assessment, determined promptly and with some degree of finality, at a figure at once approximately just to the taxpayer and fair to the government. In this country conferences between taxpayers and representatives of the Bureau of Internal Revenue often show the advantage to be all on the side of the taxpayer. To start with, the taxpayer's representative is often a more capable person than the official and in addition he often knows more about the Treasury's own interpretations than the official himself. Consequently the official often approaches a conference with a consciousness of disadvantage which breeds a desire to avoid issues rather than to settle them. This desire is furthered by a conviction that, while blunders are apt to be punished, meritorious service will almost certainly go unrewarded. The final result is that difficult questions are pigeonholed and are often allowed to go by default because of the reluctance to assume responsibility.

The contrast with the English procedure could scarcely be greater. There the surveyor is armed with secret information, supported by an organization of superiors and ordered to arrive at agreements with the taxpayers. His official standing is injured if he pigeonholes cases or avoids issues. The result is definiteness in assessment—a quality sadly lacking in the American situation.

Prevention of Evasion.—The statute states that a person shall not "for the purpose of avoiding the payment of any Excess Profits Duty, enter into any fictitious or artificial transaction or carry out any fictitious or artificial operation."[252] This section is designed to cover such cases as alterations in the method of stocktaking, manipulations of stock, inner reserves, payment of unreasonable salaries to relatives, etc. If any such transaction occurred before the commencement of the Act, the taxpayer is directed to inform the Commissioners regarding it. Failure to comply with this provision carries a penalty of a fine not exceeding £100.

Penalties.—Failure to give the required notices or to make the

[252] Finance (No. 2) Act, 1915, sec. 44 (2).

required returns subjects the offender to a fine of not more than £100 plus £10 for each day's delay after conviction.[253]

Collection Procedure.—Since the line between avoidance and evasion is so difficult to draw and since the efforts to avoid the tax are the cause of many of the serious economic consequences of the Duty, the whole treatment of evasion is relegated to Part Three.[254] This section, consequently, is devoted to the mere mechanics of collection.

As has been seen, the notice of assessment mailed by the surveyor serves as a notice to pay. Remittances must be made to Somerset House[255] within two months of the date of service of the notice. The surveyor notifies the Accountant General of the notices issued by him so that he is informed as to the total levies. The surveyor receives a notification of all payments made, files all the correspondence and keeps a record of the exact status of each taxpayer's account.

Payment Pending Appeal.—The ordinary rule is that payments must be made notwithstanding any appeal but the Commissioners of Inland Revenue may make exceptions.[256] In practice the surveyor is urged to make collections on the basis of agreed tentative assessments which will at least cover the part of the liability not under dispute.

Of particular interest to Americans is the injunction included in the statute that "the Commissioners shall make such repayments, if any, as are necessary to give effect to any decision on appeal, *as soon as possible after such decision has been given.*"[257] Under our system a taxpayer cannot test the merits of his contentions in court without first having paid the tax and then suing to "recover back" the amount so paid. So long as the taxes were moderate in amount this rule perhaps worked no considerable hardship, but at present the payment of a wrongful assessment may work extreme hardship pending the final determination of the taxpayer's appeal.

Payments in War Bonds.—The Finance Act of 1917 contained

253 Finance (No. 2) Act, 1915, sec. 44 (2).

254 *Cf. infra*, p. 147 *et seq.*

255 In the case of England and Wales. Separate collection depots are provided for Scotland and Ireland.

256 *Ibid.*, sec. 45 (6).

257 Italics are the writer's. *Ibid.*

a section making war bonds acceptable in payment of Excess Profits Duty. The law stated that, under Treasury regulations, "any stock or bonds forming part of any issue made for raising money in connection with the present war" would be accepted at a valuation determined by "the price of issue with the addition of any interest accrued."[258] An amendment the following year[259] qualified the phrase "price of issue" by the addition of these words: "or such other price as was specified in the conditions subject to which the stock or bonds were issued as the price at which the stock or bonds were to be valued for the purposes of this section." The price specified for this purpose is the nominal value, *viz.*, discounts or premiums included in the price of issue are eliminated.[260]

Prepayments.—Statutory provision is made permitting the deposit of sums with the commissioners for the purpose of satisfying Excess Profits Duty not yet payable. Interest on such deposits is allowed "at such a rate as may for the time being be determined by the Treasury."[261] The rate before March 3, 1917, was 5½ per cent. Since that date it has been 5 per cent.

The fact that these prepayments are made complicates the figures of levies and collections. In 1917 the Commissions of Inland Revenue included the following statement in their report: "Many traders availed themselves of this privilege and in consequence the Exchequer receipt within the year was considerably swollen, the total amount remaining on deposit on 31st March being £14,800,000."[262]

Surveyors take the opportunity, especially in cases of magnitude, to call the taxpayer's attention to the advantage of depositing amounts in advance, and, unless a deposit was made, the Surveyor will not ordinarily agree to extensions of time for making returns in the case of taxpayers having funds readily available for payment of the tax. Where, after an assessment had been made, a balance of any such deposit remained on hand, that balance will, at the option of the taxpayer, either be refunded to him

258 Finance Act, 1917, sec. 34.

259 *Ibid.*, 1918, sec. 42.

260 It appears that some restriction is contemplated in the acceptance of bonds in payment of the Duty. London *Times*, July 3, 1920.

261 Finance Act, 1916, sec. 54.

262 Sixtieth Report of the Commissioners of His Majesty's Inland Revenue for the year ended 31st March, 1917 (Cmd. 8887), p. 21.

without interest, or retained on deposit with a view to satisfying a future liability. This British practice is the reverse of the practice followed in this country. Here the taxpayer, by claim for abatement, stays the collection of the tax until questions affecting the assessment have been settled, at which time he pays the amount of the additional assessment with interest at the rate of 6 per cent (prior to 1918 at the rate of 12 per cent) on that amount of the claim for abatement which is finally disallowed.

Interest on sums deposited in prepayment of the tax is included in taxable income for purposes of income tax but is ordinarily excluded from profits subject to the Duty. However, if the taxpayer prefers, he may include the interest in his profits and then use the amount of the deposit as invested capital.

In addition to the interest allowance on sums deposited in advance of assessment, a discount is given when a concern pays the Duty after the assessment but more than a week before the payment is due.

Payment by Instalments.—The statutory rule is that the Duty is "payable at any time, not less than two months, after it is assessed," but the "Commissioners may, in any case where they think fit, allow the Duty to be paid in instalments of such amount payable at such times as the Commissioners direct."[263]

In this country the Excess Profits Tax originally assessed may be paid in four quarterly instalments. Postponements are often secured in the case of additional assessments made on the basis of subsequent audits, by the somewhat irregular device of persuading the Treasury officials to postpone the technical service of "notice and demand."

In England the Commissioners of Inland Revenue have laid down no specific rules of general application to govern the payment of the Duty by instalments. The general rule is that the entire amount shall be paid within the two-month period but when extensions are requested the Board has been liberal in granting them. Within broad limits discretion is vested in the local surveyor to determine the conditions of payment. Since no interest is charged the taxpayer because of the postponed instalments there is a distinct advantage securing the privilege. An official of the Inland Revenue estimated that perhaps ten per cent of the

[263] Finance (No. 2) Act, 1915, sec. 45 (1).

concerns are given extensions, that ten per cent including many of the large taxpayers.

The extensions permitted are usually short. The period ordinarily ends within six months after the tax was originally due and the Duty is usually divided into two or three equal instalments. In certain cases of particular hardship the payments were distributed over a period ending not later than 9 months after the tax was originally due or 18 months after the close of the accounting period for which the Duty was assessed.

The British have experienced the difficulty encountered in this country arising from the fact that the assessment is often made against profits represented by inflated inventories or invested in new plant or extensions. Acting on the basis of a definitely announced government policy the Inland Revenue has been liberal in granting extensions where such conditions obtained. This liberality has prevented acute distress but has resulted in the accumulation of very considerable arrears. In this country assessed federal taxes are promptly collected but it is impossible to say how large is the amount of taxes really due the Treasury which will not be assessed until uncovered in the course of the Departmental audits.

Inland Revenue officials admit that the discretionary power to postpone payments vested in them has resulted in some degree of embarrassment to them. At times, the writer has been told, they are imposed upon. Thus one manufacturer confessed that he had secured from a friendly banker a note refusing to lend him money to pay his Duty, which note he used to secure a tax extension when, as a matter of fact, it would not have been difficult for him to have raised the money. Such cases, however, are doubtless rare. Borrowing from the banks has been resorted to in a few instances but the bankers testify that this is an unusual occurrence. There have been no business failures directly traceable to the Duty but, of course, there have been various undesirable results such as restricted developments and depleted reserves. The sentiment of the business men has, naturally enough, been in favor of greater liberality in the extensions rather than a more strict policy of collections.[264]

[264] *Cf.* Deputation from the Association of Chambers of Commerce of the United Kingdom to the Chancellor of the Exchequer. June 15, 1917, p. 61 *et. seq.*

Arrears.—When so large a proportion of the outstanding levy is covered by the elastic power of the Inland Revenue to grant extensions, it is not proper, strictly speaking, to refer to the amounts remaining uncollected as arrears. Moreover, the policy of encouraging prepayments complicates the figures and makes exact statements difficult. However, the Board of Inland Revenue reported that at the end of the year 1916-17 there remained unpaid Excess Profits Duty to a total amount of about £35,000,000.[265] A year later this figure had grown to about £96,883,910.[266] In the summer of 1919 the writer was told that the total arrears were approximately £200,000,000, roughly one-fourth the amount of the aggregate cash collections from the Duty. In this country this would seem an alarmingly large sum. If we are less prompt in determining final assessment we certainly appear to be more prompt in making our collections.

Appeals

Much more elaborate and well-defined machinery for the consideration of appeals is provided under the British system than under the American. On this point we are woefully weak with our overcentralized administration and our complete lack of administrative appeal to other bodies than those themselves responsible for the appealed assessments. Recourse to the courts may be made more freely here than there but this is such a slow and costly remedy that it frightens many taxpayers. They usually prefer to endure the grievance but they endure it with grumbling and dissatisfaction which adds to the general discontent with the tax.

In England appeals for administrative modification or relief may be made to one of three authorities, depending upon the nature of the appeal.

(1) Since the Commissioners of Inland Revenue are themselves the legal assessors it is not proper, strictly speaking, to refer to them as an appeal body. However, they are given wide discretion in the statute to make modifications in the calculation of the Duty either upon their own initiative or upon specific application from the taxpayer. On certain points the final appeal is to this body.

(2) In the cases of certain specified topics, taxpayers dissatis-

265 Report, 1916-17, p. 21.
266 *Ibid.*, 1917-18, p. 21.

fied with the decisions of the Commissioners of Inland Revenue may appeal from them to the Board of Referees, established under the law. This Board of Referees, moreover, has original authority to determine the reasonableness of applications for increases in the statutory percentage and certain similar matters.

(3) In case of dissatisfaction with the *amount* of the assessment there is a general right of appeal to the regularly constituted appeal authorities under the income tax, *viz.*, the General Commissioners or the Special Commissioners, but the matters specifically delegated to the discretion of the Commissioners of Inland Revenue and the Board of Referees are not subject to this appeal.

In addition a case may be stated on a point of law for the opinion of the High Court.[267] Such cases are not frequent. Thus far not a single appeal has been made from the decisions of the Board of Referees. The ordinary grivances, the appeals for special treatment and the complaints against the action of the assessors are cared for by the machinery described above. On almost every question of fact concerning which the taxpayer may disagree with the surveyor he may appeal to a body entirely independent of the Treasury which functions in accordance with the principles and spirit of arbitration. The system has given general satisfaction in operation.[268]

Appeals to the Commissioners of Inland Revenue.—The Commissioners of Inland Revenue assess the Excess Profits Duty[269] but, as has been seen, the detailed work of arriving at the liability of the taxpayer is delegated in large measure to the surveyors in the local districts. Thus it comes about that the higher officials of the Inland Revenue, the inspectors and the secretaries, perform a general function of review and appeal in the course of the action of formally establishing the assessments. There are a

267 Cmd. 288-1, p. 18.

268 A complaint made by the deputation from the Association of Chambers of Commerce of the United Kingdom, at the Treasury, 24th April, 1917 (p. 13), is based in part at least on a misconception. This deputation preferred the appeal system used under the Income Tax but apparently did not understand that the line of demarkation between the powers of the Inland Revenue and those of the general commissioners is not strictly drawn in practice and did not realize that the Board has no option but to refer to the Referees appeals under Section 40 (3).

269 *Cf. supra*, p. 99.

large number of points upon which the Commissioners of Inland Revenue are given power either to exercise discretion or to give specific directions. Certain of their decisions are subject to appeal to the Board of Referees. Certain others may be appealed to the income tax authorities—the General Commissioners or the Special Commissioners. Certain other points are decided finally by the Inland Revenue.

Some points are taken up for review or special consideration on the initiative of the taxpayer. Others are given special treatment by the Commissioners of Inland Revenue without special action by the taxpayer.

In addition to its other functions the Inland Revenue receives and transmits certain appeals to the Board of Referees, on which the Commissioners have no power to take action except that they may eliminate any which they consider "frivolous or vexatious" or duplications of cases already decided.

The points upon which there is no appeal from the decision of the Commissioners of Inland Revenue include such matters as the determination of the limits of an accounting period, the determination of the allowance for directors' remuneration,[270] the apportionment of the profits of long-term contracts, and the evaluation of good will for purposes of invested capital in cases of reorganizations—mostly technical points where uniformity of treatment is important.

An appeal is given from the decision of the Commissioners to the Board of Referees in cases in which they have exercised their broad powers to modify the provisions grouped under the "Fourth Schedule"[271] which includes the rules governing the determination of profits, the establishment of the pre-war standard and the computation of invested capital. The language of the law is as follows:[272]

"Where it appears to the Commissioners of Inland Revenue on the application of a taxpayer in any particular case, that any provisions of the Fourth Schedule to this Act should be modified in his case, owing to a change in the constitution of a partnership, or to the postponement or suspension, as a consequence of the present war, of renewals or repairs, or to exceptional depreciation or obsolescence of assets employed in the trade or

[270] *Cf. supra*, pp. 43-44.

[271] *Cf. infra*, Appendix A, II.

[272] Finance (No. 2) Act, 1915, sec. 40 (3).

business due to the present war, or to the necessity in connection with the present war of providing plant which will not be wanted for the purposes of the trade or business after the termination of the war, or to any other special circumstances specified in the regulations made by the Treasury, those Commissioners shall have power to allow such modifications of any of the provisions of that Schedule as they think necessary in order to meet the particular case."

The commissioners are granted no powers of discretion in transmitting to the Board of Referees appeals under this section from taxpayers dissatisfied with the modifications allowed by them.[273]

The authority granted to the Inland Revenue in the section quoted above is much broader than the similar authority granted in our statute[274] to the Commissioner of Internal Revenue. The British statute allows such adjustment as the Commissioners of Inland Revenue may "think necessary in order to meet the particular case." Our statute permits the Commissioner to make the assessment on the showing of representative corporations engaged in a like or similar trade or business. In this country the Commissioner of Internal Revenue must accomplish by indirection what the British statute permits the Commissioners of Inland Revenue to accomplish directly. Under our statute, no matter how clearly the abnormal conditions affecting a particular taxpayer may be adjusted for the purpose of assessing the excess profits tax, the Commissioner is not authorized to make such adjustment. His authority extends only to waiving assessment under the specific rules of the statute and to making an assessement based upon the amount of tax paid by other taxpayers engaged in a like or similar trade or business. It is well known that in the same general trade or business particular concerns may be found which pay very large or very small amounts of tax and the specific corporations which may be chosen by the Commissioner for the purpose of comparison was, under the 1917 statute, at least, ap-

[273] Finance (No. 2) Act, 1915, sec. 40 (3). The Finance Act of 1916 (sec. 47, d) excluded a purchaser of a ship from obtaining, under this section, "any greater relief than could have been obtained by the vendor if the ship had not been sold, other than relief in connection with expenditure by the purchaser on improvements or repairs."

In the case of a controlled estalishment "a referee or board of referees appointed or designated by the Minister of Munitions" might be substituted for the Excess Profits Duty Board of Referees. Finance Act, 1916, sec. 55.

[274] Revenue Act of 1917, sec. 210; Revenue Act of 1918, sec. 328.

parently governed only by his determination to reach an amount of tax which in his opinion was proper to assess in the case under review. In other words, he was able, as a matter of fact, to accomplish indirectly that which he was not authorized to do by the statute, namely to take into consideration the particular abnormal features of a case and determine an amount of tax which in his opinion was just and equitable.

It will be noted that "exceptional depreciation" is included among the conditions which would justify a British taxpayer in applying to the Commissioners of Inland Revenue for a modification of his assessment, and, if dissatisfied, in carrying his appeal to the Board of Referees. In addition to this provision an amendment was passed in 1918[275] which required the Commissioners of Inland Revenue to transmit to the Board of Referees applications "for the alteration of the amount of any income tax deduction for wear and tear"—merely ordinary depreciation—unless they considered such applications "frivolous or vexatious."

This same discretionary power to weed out appeals is given to the Commissioners of Inland Revenue in cases of application to the Board of Referees for changes in the standard of profits under Section 42 of the statute.[276] The Commissioners may decline to refer the application to the board "if they are of the opinion that the application is frivolous or vexatious or refers to matters already decided by a Board of Referees."

The cases upon which action by the Commissioners of Inland Revenue is subject to review by the regular income-tax appeal authorities consist of those relating to the *amount* of the assessment which do not have a special right of appeal under the act.[277]

Appeals to Income Tax Commissioners.—It will be noted that the appeals on questions which are peculiarly Excess Profits Duty problems are ordinarily referred to the Board of Referees, either after action by the Commissioners of Inland Revenue or without such action. Other questions go to the regular appeal authorities established for income tax purposes. The statute provided that

"Any person who is dissatisfied with the amount of any assessment made upon him by the Commissioners of Inland Revenue . . . may (except in cases where a special right of appeal is given . . .) appeal to the General Commissioners or the division

[275] Finance Act, 1918, sec. 24 (1).

[276] *Cf. infra,* p. 125.

[277] *Cf.* following section.

in which he is assessed, or to the Special Commissioners. . . .[278]

It should be noted particularly that it is the *amount* of the assessment which is subject to appeal. Several points which affect the amount only indirectly, such for example as the limitation of the accounting periods, and several points specifically left to the discretion of the Board of Inland Revenue may not be so appealed.[279]

The General Commissioners referred to are members of local honorary, unpaid boards which are technically in charge of the income tax assessments. Their full title is "Commissioners for the General Purposes of the Income Tax." They are often referred to colloquially as "Local Commissioners" or "District Commissioners." In 1919 there were approximately 5,600 of these General Commissioners in Great Britain. They are appointed upon the nomination of the Land Tax Commissioners from among their own numbers. All Justices of the Peace are *ex officio* Land Tax Commissioners and others are appointed from an eligible list made up of those who have been included in a "Names Act" which is passed by Parliament from time to time. How the "Names Acts" are compiled appears to be one of the unsolved mysteries of British governmental organization.[280]

The Special Commissioners, who are also designated as appeal authorities coördinate in power with the General Commissioners, are income tax officials of long standing. They owe their origin to a desire on the part of business men to be given the right of appeal, in income tax cases under Schedule D, to a body which is not made up of local people who might profit from a knowledge of the intimate facts revealed in the course of hearings on assessments. There are at present seven of these special commissioners. They are permanent, paid officials appointed by the Lords of the Treasury and are in no sense subordinate to the Board of Inland Revenue. Their salaries range from £850 to £1000. They maintain headquarters in York House, London, where they hear appeals but in order to serve the convenience of taxpayers they

[278] Finance (No. 2) Act, 1915, sec. 45 (5). For special provisions referring to Ireland and to the statement of a case on a point of law, *cf. infra*, Appendix A, II. Appeals in cases of profits on trading stocks go to the income tax commissioners (general or special). Finance Act, 1918, sec. 35 (3). In the case of certain shipping profits the appeal is to the Special Commissioners alone. *Ibid.*, 1916, sec. 47 (b); *ibid.*, 1917, sec. 22 (2), *infra*, Appendix A, IV.

[279] *Cf. supra*, p. 119.

[280] *Cf.* Testimony of Sir Thomas Collins, Cmd., 288-1, p. 14 *et seq.*

also go on circuit from time to time, two commissioners forming a quorum.[281]

The procedure before these commissioners is not elaborate. Around a table meets a group consisting of the taxpayer, represented by counsel if he chooses, the General Commissioners with their clerk who is often a trained lawyer, or the Special Commissioners with a special legal representative of the Crown if the case is important, the surveyor who has striven in vain to effect an agreement both before and after the assessment and through the assistance of his supervising inspector. Witnesses may be called and examined under oath. Decisions arrived at under these circumstances give general satisfaction. The taxpayer feels that he has had a hearing under fair conditions for it is for him alone to decide whether he prefers to have his case settled by the board made up of his friends and neighbors or by a Treasury body independent of the Inland Revenue.

The British are very much attached to the Boards of General Commissioners and are jealous of any movement to shear them of any of their powers to adjust cases on appeal. Although as has been seen, their powers of original assessment have largely been taken over by the Surveyors, their position on appeals is still very strong.

Appeals to the Board of Referees.—The Board of Referees constitutes the most distinctive contribution made by the Excess Profits Duty to the British administrative organization. It is, in fact, the only body which was set up especially for the purposes of this Duty. Its worth has been amply demonstrated by the satisfactory manner in which it has solved the difficult problems assigned to it. Its existence has resulted in the accomplishment of certain ends which could not possibly have been gained through ordinary departmental machinery, even as modified for purposes of the Duty. It will undoubtedly remain as a permanent part of the British organization even though the Excess Profits Duty disappears.

The idea back of the Board of Referees is essentially that which is responsible for the British arbitration courts for commercial disputes. It is the notion that on certain questions a decision can best come from a disinterested group of umpires familiar with

281 These special commissioners make all of the income tax assessments in Ireland.

the complicated conditions under which business operates and free from the bureaucratic bias of the administrator or the doctrinal bias of the lawyer.

We have nothing in our organization which compares with this body. The Excess Profits "Advisors" and "Reviewers"—now no longer in existence—constituted our nearest approach, but they were, after all, Treasury officials even though their outside connections and brief official tenure gave them a certain degree of detachment and freedom from the bureaucratic point of view. Our present Committee of Review and Appeal is purely a departmental organization with no trace of the arbitration element in its constitution. During the war the "advisors" and "Reviewers," in spite of their organic connection with the assessing authority really functioned to a limited extent as the Board of Referees functions in Great Britain and their efforts were deeply appreciated and approved by American taxpayers. Without their efforts the administration of the statute would have been practically unendurable. The British have this element organically incorporated into their system in a form much superior to that we utilized.

Constitution of the Board of Referees.—It is the general aim to have the Board of Referees consist of one or two men trained in the law to preside, about twelve accountants and twelve business men. The business men are selected from various branches of industry and from all parts of the country. Nominations for a certain number of places on the Board are invited from the Chambers of Commerce. Membership is a mark of honor and distinction. Appointments are made by the Treasury and members are paid no salary but receive an honorarium of two guineas per day for expenses. The following list of the members of the Board as constituted in March, 1917, will give a conception of their high calibre and standing:

Sir Charles Bine Renshaw, Bart., Scotland, Chairman of Caledonian Railway and Carpet Manufacturer (Chairman).

Lord Faber, Yorkshire, Banker.

Sir Clarendon Hyde, London, Partner in Pearsons, Contractors.

A. F. Pease, Yorkshire, Coal and Iron.

J. H. Tritton, London, Banker (Barclay's Bank).

Leif Jones, M.P., Lloyd's.

F. W. Gibbons, South Wales, Tin-plate.

J. E. Fottrell, Dublin, Director of Royal Bank of Ireland.

Alexander Cooke, Belfast, Flax and Yarn Merchant.

H. Woodburn Kirby, London, President of the Institute of Chartered Accountants.

A. C. Miles, Manchester, ex-President of the Institute of Chartered Accountants

R. H. March, Cardiff, Accountant.

W. H. Cook, Scotland, President of the Scottish Chartered Society of Accountants.

Sir William Peat, Accountant (Shipping).

C. Hewetson Nelson, Liverpool, President of the Society of Incorporated Accountants and Auditors.

W. T. Walton, West Hartlepool, Accountant.

Sir Jeremiah Colman, Bart., London and Norwich, Mustard, Starch and Blue Manufacturer

C. D. Morton, London, Chairman of a firm of Manufacturers, Exporters, and Dealers in Provisions.

Howard Williams, London, Chief Partner in Hitchcock, Williams and Co., Wholesale Drapery Warehousemen and Retailers.

W. Penrose-Green, Leeds, Locomotive Builder.

L. F. Massey, Manchester, Chairman of Engineering Works.

Walter Tyzack, Sheffield, Cutlery Manufacturer.

J. A. Jones, Cardiff and Newcastle, Shipping

A. W. Faire, Leicester, Boot and Shoe Manufacturer

William McLintock, Accountant, Glasgow.

Edward Manville, of London and Coventry, President of the Associated British Motor Manufacturers.

D. M. Kerly, K.C., London.

A. W. Wyon, Accountant, Partner in the firm of Price, Waterhouse and Co.

It will be noted that there were 28 members at this time distributed among the various professions and businesses as follows: Manufacturing, 9; accounting, 9; banking, 3; mercantile, 2; law, 1; contracting, 1; mining, 1; shipping, 1; and insurance, 1. Two years later, July 31, 1919, the constitution of the board remained unchanged except for the absence of the names of Sir Charles Bine Renshaw and A. F. Pease and the addition of W. F. Clark, a mining engineer. Mr. Kerly is now chairman. The further enlargement of the board was under consideration at this time.[282]

The cause assigned for the discontinuance of our Advisory Tax Board was the inability of the Treasury to enlist the services of men of the proper stamp. Service on that board meant accepting a full-time position as a treasury official and devoting one's entire effort to the work. Service on the British Board of

[282] Royal Commission on the Income Tax, 1919, Cmd. 288-1, p. 67, footnote.

Referees involves no such sacrifice. Instead of being overwhelmed by a multitude of individual cases, the time of the Board is conserved by the delegation of all but the most important matters to the Board of Inland Revenue and the General and Special Commissioners. The total number of appeals which they have actually entertained amounts to only about one hundred. Moreover, the entire board does not sit, for it has been found feasible to divide its membership into panels of a half-dozen members, so that, although there have been about forty meetings of the Board in all, it has been necessary to ask the individual members to give only about ten days apiece to the work. Immediately after its establishment the Board met frequently and for all-day sessions. Since the first rush of appeals, the meetings have been held infrequently and have lasted only a few hours.

Cases Subject to Appeal to the Board of Referees.—As has been shown above,[283] appeals to the Board of Referees fall into three general classes:

(1) A taxpayer dissatisfied with the modifications made by the Commissioners of Inland Revenue under authority of Section 40 (3) in the rules of the Fourth Schedule[284] as applied to his case may insist that his appeal be referred to the Board of Referees.[285] The Commissioners have no power to intercept such an appeal. They must refer every one to the Board. It is to be noted that such appeals come from individual taxpayers rather than from classes of trade of business.[286]

Most of the appeals under this section have had to do with modifications due to a change in the constitution of a partnership. Thus far the Board of Referees has not granted a single appeal of this type, the adjustments made under Part II of the Fourth Schedule having proved sufficient to meet the situation.[287] A number of appeals for modifications based on war causes are expected in the course of the adjustment of industries to post-war conditions.

283 *Cf. supra,* pp. 115-116.

284 *Cf. infra,* Appendix A, II. The Finance Act of 1917 (sec. 55) provided for the reference of certain questions arising in connection with the assessment of controlled establishments to referees appointed by the Minister of Munitions.

285 *Cf. supra,* pp. 117-118.

286 *Ibid.*

287 *Cf. infra,* Appendix A, II.

(2) By an amendment to the income tax law passed in 1918,[288] "where an application has been made to the Commissioners of Inland Revenue for the alteration of the amount of any deduction for wear and tear, the Commissioners, unless they are of the opinion that the application is frivolous or vexatious, shall refer the case to the Board of Referees." These are cases of ordinary depreciation rates. In such appeals that Board, "if satisfied that the application is made by or on behalf of any considerable number of persons engaged in any class of trade or business" takes the application into their consideration and determines the deduction to be allowed.[289]

In the summer of 1919 the writer was informed that there had not yet been any cases before the Board under this section.

(3) Finally in certain cases where the Commissioners of Inland Revenue have no authority at all to make modifications, they act as an intermediary in presenting appeals to the Board of Referees, weeding out certain cases in the process. Such cases are those included within the terms of the following section of the law:[290]

42. "Where an application is made. . . .

(1) For an increase in the statutory percentage as respects any class of trade or business or for a calculation of the percentage standard in the case of any class of trade or business in which the amount of capital actually employed in the trade or business is, owing to the nature of the trade or business, small compared with the capital necessarily at stake for that trade or business, by reference to some factor other than the capital of the trade or business or to some additional factor: or

(2) For an alteration of the pre-war standard of profits as respects capital employed for the purpose of the manufacture of war materials or for munitions work and which could not be expected to be remunerative or wholly remuner-

288 Finance Act, 1918, sec. 24 (1). *Cf.* also, Income Tax Act, 1918, 8 and 9, Geo. 5, Ch. 40, Schedule D, Cases I and II, rule 6 (7).

289 Moreover in the codification of the income tax accomplished in 1918 (8 and 9 Geo. 5, Ch. 40) an appeal is given to "a referee or board of referees to be appointed for the purpose by the Treasury" in cases of dissatisfaction with an income tax assessment based on a percentage of turnover. Income Tax Act, 1918, All Schedules Rules, no. 9.

290 Finance (No. 2) Act, 1915, sec. 42.

ative, except in time of war, in a business which has been wholly or mainly carried on for those purposes."

An appeal falling within this class is filed with the Commissioners of Inland Revenue who refer it to the Board of Referees unless "they are of the opinion that the application is frivolous or vexatious or relates to matters already decided by the Board of Referees."[291] Moreover, the last phrase regarding matters already decided does not prevent the Commissioners from referring back to the Board of Referees any matters already decided by the Board in cases affecting classes of trade or business,[292] which, in their opinion, deserve reconsideration or review, this point being specifically covered by an amendment passed in 1917.[293]

As a matter of fact, the Commissioners of Inland Revenue have never exercised their power to intercept an appeal as frivolous or vexatious. They have attempted to dissuade petitioners when they considered that the appeals were lacking in merit but they have in no case refused to transmit an appeal to the Board of Referees.

It will be noted that there are really three types of applications included in this third class:

(a) Appeals for an increase in the statutory percentage;
(b) Appeals for the calculation of a special percentage standard and
(c) Appeals for the alteration of the pre-war standard of munitions concerns.

Most of the appeals considered by the Board of Referees have fallen in group (a)—applications for increases in the statutory percentage in a "class of trade or business." The action of the Board on these appeals is treated in detail in sections which follow.[294]

Very few applications have been received in group (b), appeals for the calculation of a percentage standard by reference to some other factor than the capital in cases where the capital invested is small compared with the capital at stake. This section was originally designed to meet the objections of those engaged in underwriting risks and does not apply to cases where the total

291 Finance (No. 2) Act, 1915, sec. 42.

292 Note that this permission is not extended to cases falling under (2) above.

293 Finance Act, 1917, sec. 25.

294 *Cf. infra*, p. 130 *et seq.*

capital at the risk of the business is small compared with the profits. In only two cases have such special standards been set up by order of the Board. They are the businesses of underwriting and insurance (fire, accident, and general, not including life or marine). The "other factor than the capital" selected as the base for the calculation of the percentage standard in the case of the specified insurance companies was taken to be the net premium income and the standard was to be ascertained by applying the statutory rate to an amount equal to one-half of that income for the year at the end whereof capital is to be reckoned.[295] In the case of the marine insurance companies the amount of the entire net premium income for the year was taken in place of the invested capital.

The powers of the Board with reference to appeals falling in group (c)—munitions concerns—have apparently not been exercised, the determination of equitable allowances having been accomplished by other methods.

It is evident, then, that the activity of the Board has been restricted almost exclusively to the consideration of appeals from classes of trade or business for increases in the statutory percentage.

"Class of a Trade or Business" Defined.—An application to the Board of Referees for an increase in the rate of depreciation, the statutory percentage or for the calculation of a special percentage standard is entertained only when it is presented by a class of trade or business. This phase is defined in the statute so as to extend the permission to appeal to "any subdivision of a trade or business based either on any special feature of the trade or business or on locality . . . in any case where the Board of Referees are of opinion that the subdivision can properly be dealt with separately."[296]

The interpretation of this definition of "class of trade or business" is made by the Board of Referees in the course of its decisions as to whether it will entertain particular appeals from individual concerns who maintain that they should be treated as a class or as a subdivision of a class. However, if it is admitted that the class includes other concerns, an appeal from a single concern is not considered even though it be contended that the

295 *Cf.* Appendix D.
296 Finance (No. 2) Act, 1915, sec. 40.

appealing taxpayer is the only member of the class which has earned enough to make it liable for Duty or that competition among members of the class is so bitter as to prevent combination for purposes of a collective appeal or other general trade purposes. It is understood, however, that, while a petitioner must speak on behalf of all or the bulk of his class of trade, the Board would probably not refuse to hear an appeal in a case where as many as 25 per cent of the concerns failed to support the petition.

When a single concern appeals to be considered as a class on the ground that it is the only concern engaged in the business in a given locality, it must be shown conclusively that there are factors of location which affect the enterprise so fundamentally as to make it truly unique. Thus a group engaged in bootmaking in a Scotch village was discouraged from appealing as a class while a favorable award was made in the case of an appeal of a single concern engaged in mining chrome ore on an island in mid-ocean.

It is difficult to persuade the Board of Referees to recognize an appeal from a single individual who refines the definition of his subdivision or class by restrictions consisting of references to the "special features" of the business. It is understood that the Board insists that such "special features" shall not be merely accidental but shall be incidents in the nature of special risks connected with the trade of really substantial importance in their effect upon the amount of the Duty.

The classification of business, however, is sometimes carried to a high degree of refinement. For example, the Board has recognized distinction between no less than three types of tin mining in Malay. The statutory percentage was made 13 and 14 per cent in the case of concerns engaged in "the mining of alluvial tin in the Federated Malay States (not including mining by operating bucket dredges)" while it was made 16 and 17 per cent in the case of concerns "mining lode tin in the Federated Malay States." The rate was made 13 and 14 per cent in the case of concerns engaged in the "mining of alluvial tin in the Federated Malay States and Siam by operating bucket dredges." There were still additional classes consisting of the tin mines in Nigeria and those in the United Kingdom.

The collection of evidence and the conduct of appeals naturally falls to a considerable extent within the province of existing trade

organizations. The officials of the London Chamber of Commerce, for example, stated that they had prepared the cases for several classes of business and had represented the class before the Board of Referees.

It is apparent that a reduction through appeals to the Board of Referees is never obtained merely because of the fact that the appellant is subject to a large tax. Relief can be secured only in case where the taxpayer can show that, for some reason inherent to the nature of the business, he deserves a higher standard. Moreover an individual concern can secure a hearing only in a case where it is in the unique position of being absolutely the only representative of a class of trade or business as above defined.

Orders of the Board of Referees.—When an order is made by the Board of Referees which increases the statutory percentage or alters the percentage standard "as respects any class of trade or business" the statute states that the increases and alterations shall be made "as respects any trade or business belonging to that class."[297] Orders of the Board of Referees establishing special percentage standards or increasing statutory percentages are published in the London *Gazette.*

The practice contrasts sharply with ours under which relief is never extended to classes by administrative action but only to individual cases upon individual application. Much injustice is caused here by this rule because relief is often extended to one concern and not to another, similarly circumstanced, because the first, aggressive and well-advised, happened to push a claim for relief while the second, because of ignorance, inertia or expense, failed to do so.

Orders of the Referees are effective as from the date specified in the order.[298] It is the custom in the case of special percentage standards to grant the increases from the time when the original act went into effect..

General Procedure Before the Board of Referees.—All appeals to the Board of Referees pass through the hands of the Inland Revenue. The statute, however, does not prescribe what shall be the position of the Inland Revenue in a hearing before the Board of Referees. As a matter of practice, the Inland Revenue makes every effort to make an adjustment to the extent of its statutory

[297] Finance (No. 2) Act, 1915, sec. 42.
[298] *Ibid.*

authority and as a result the Referees hear the case only after the issues have been sharply defined and the facts carefully prepared. The case is either one where the Inland Revenue thinks that the taxpayer is asking for a modification which is unreasonable—when the Referees must virtually take a position of an arbitrator and decide between the parties to the dispute; or the case is one where the class of business is asking for an increased statutory percentage—when the Board of Referees is very eager to have the Inland Revenue appear as a "friend of the court" in order that it may receive its advice as to what increase, if any, should be granted. Consequently the Inland Revenue is always in the midst of the proceedings before the Referees. As a matter of fact the final preparation of the appeals is usually done by the technical staff of the Inland Revenue. Often as a result of the preliminary discussions, the appealing trade and the Inland Revenue present a united front, the trade preferring to modify their demands in order to secure the advantage of the hearty support of the Inland Revenue at the hearing before the Board of Referees. The recommendations of the Inland Revenue always carry great weight with the Board. Indeed the officials could recall no case in which an appeal had been granted contrary to their advice, except one in which the Board of Referees declined to grant as liberal relief as the Inland Revenue was prepared to concede!

When the Commissioners of Inland Revenue receive an appeal to the Board of Referees, they examine it to make sure that it is in regular form and attach a statement setting forth the extent to which they are prepared to admit the facts as stated. Then, if there is any dispute as to facts, there is an interlocutory appointment with the chairman of the Board of Referees at which the appellant receives definite directions as to issues which should be raised and as to supporting evidence which should be submitted. Two weeks before the final hearing, proofs of the evidence are exchanged between the Inland Revenue and the appellant and eight days before the hearing they are filed with the Referees. About two-thirds of the cases are decided without oral argument before the Board. The decision is given in writing on the day of the hearing. Only three weeks are ordinarily required to carry a case from the notice of appeal to the final decision.

Increased Statutory Percentages—General.—The British

statute recognizes much more frankly than our own the great diversity of business and the consequent necessity for elasticity of treatment. Probably the actual range of conditions is greater in the case of British business than in our own, due to the extensive colonial developments. Then, too, under the British income tax procedure, with its limited recognition of depreciation and its entire disregard of depletion and capital losses, it was even more important than in our case that the statutory percentage be made flexible. However, a given percentage of return on invested capital could not hope, in either England or America, to apply equitably to all classes of business. In establishing their procedure for introducing the necessary elasticity the British have distinctly surpassed us. Relief is extended systematically and uniformly. Our relief is neither systematic nor uniform.

The Board of Referees does not announce the basis upon which it rests its decisions as to whether increased percentages shall be granted. This is in conformity with the general theory of British Tax administration that the taxpayer should proceed to carry on his business and make up his accounts as he would if there were no tax in existence. Too detailed knowledge of the procedure, it believes, encourages the rigging of accounts and the warping of the form of transactions in an attempt to avoid the tax.

It is understood, however, that in considering appeals for percentages in excess of that established in the statute the Board bases its decisions on the theory that this portion of the tax is distinctively an excess profits tax with an invested capital standard rather than a war profits tax with a pre-war standard. What such concerns are accustomed to earn is considered beside the point, although what such concerns are accustomed to lose is considered the best possible evidence regarding the degree of risk involved. The real question is whether there appear to be any circumstances surrounding this class of business which makes it economically necessary for them to receive an abnormally large return on their invested capital.[290] The special circumstances which appear to be considered of most importance are depletion, deferred yield and risk. Depletion is adequately cared for in this country through the allowance of full deductions in arriving at

290 *Cf. supra*, p. 17, footnote 63.

taxable profits.[300] In Great Britain depletion is not recognized as a proper deduction[301] and in making comparisons the fact that the statutory percentage includes depletion must always be kept in mind. Here we make no specific modification for the deferred yield or for risk. With respect to deferred yield, we do not even give the recipient the reliefs granted under the British provisions regarding capital temporarily non-productive and set offs and refunds for bad years, to say nothing of this special arrangement for an increased statutory percentage. With respect to risk it is true that, under our different concept of income, we do permit the deduction of capital losses, but it is obvious that our rigid scheme of taxing the result of each year's operations without reference to what has happened before or what may happen thereafter effectually prevents risk from being taken fully into account even for an industry as a whole. Moreover, the irregular distribution of the losses among the individual concerns in a given industry makes it inevitable, in the absence of general relief such as the British give, that our excess profits tax should in some cases fall upon what are, in effect, nothing more or less than insurance funds. This fact is implicitly recognized in our law when we extend to mining and oil companies the right to calculate depletion on a special arbitrary basis. This is merely a bunglesome attempt to recognize a factor which the British take into account in a straightforward scientific manner. For example, who may deny that the British special allowance of an additional 2½ per cent in the case of California oil producers is a more practical solution than our special depletion allowance on the basis of value after discovery?

An inspection of the published decisions of the Board of Referees makes it evident that it does not hesitate to increase the statutory percentage when an enterprise is subject to risks such as great distance from home supervision, exposure to unsettled political conditions[302] and the presence of unusual rates of depletion. In the case of very risky ventures the statutory percentage is increased to a point which is startlingly high as compared with our modest 8 per cent allowance. The highest awards by the British Referees have been a percentage of 29½ per

300 *Cf.* Revenue Act of 1918, secs. 214, 234.

301 *Cf. infra*, p. 55.

302 *E.g.*, oil raising in Burma, 2½ per cent additional; oil raising in South Russia, 8 per cent additional.

cent[303] on pre-war capital and 32½ per cent[304] on new capital, but this was for a mining venture in which no depletion was deductible except through this percentage.

Applications from mercantile undertakings at home have not fared well before the Board of Referees The great majority of the cases favorably received have been undertakings abroad.

It occasions surprise that a list of applications which includes such narrowly defined classes of business as "oil raising in Assam," "lending money on mortgage in Mauritius," and "theaters in the West End of London," should be as short as it is, containing in all only 131 items. If England with her wider range of undertakings can meet the problem of the adaption of profits taxation to special types of business with so slight an expenditure of effort, it is interesting to speculate as to what might be accomplished in equalizing the tax in this country if, say, only a dozen special classes of business were recognized and special percentages granted. The Treasury is already in the possession of data which should be of great assistance in determining what these percentages should be.

List of Increased Statutory Percentages.—The following is a complete list, so far as the writer has been able to check it, of the increases in statutory percentages granted by the Board of Referees. The figures given relate to corporations and represent the increase over the basic 6 per cent general allowance. Unincorporated concerns originally received an additional one per cent which figure was increased to two per cent as of January 1, 1917. From the same date in the case of new concerns and of new capital in old concerns the old 6 per cent rate was increased by two per cent as of January 1, 1917. From the same date in the case of new concerns and of new capital in old concerns the old 6 per cent rate was increased by 3 per cent which was to apply in addition to any special allowances made by the Board of Referees.[305] Consequently, to arrive at the total allowance for a concern included in one of the classes in the following list, 6 per cent should be added if it is a corporation and 8 per cent if it is a partnership, with 3 per cent more if it is a new concern or if the item is one of capital recently invested.

303 These rates apply to unincorporated ventures.

304 This is increased one per cent under the proposed 1920 legislation.

305 *Cf. supra*, pp. 91-93.

	Additional Percentage
Aeronautical instruments, manufacturers of	*nil*
Agriculture in Greece	6
Aircraft manufacture	9
Antimony mining and smelting in Mexico	11
Antimony smelting	*nil*
Asbestos mining in Rhodesia	10
Balata, collection, preparation and sale of	4
Boot making	*nil*
Cement manufacture, excluding cement for plastering, etc	½
Chrome ore mining in New Caledonia	16½
Cinemas	5
Coal mines in Bengal	4
Coal mines in Great Britain	3
Coal mines in Rhodesia	4
Coal mines in Union of South Africa	3
Cocoanut growing in the Middle East	4
Cocoanut growing in British West Indies	5½
Cocoanut and palmyra palm manufactures in Southern India and Ceylon	2½
Coke manufacture in Rhodesia	3
Coke manufacture in the United Kingdom	2
Cold storage	1½
Copper mining in California	4
Copper mining in Chile	4
Copper mining in Rhodesia	9
Cotton production in the Sudan	6
Electric light and power at Hankow	3
Electric supply in India	1
Electric supply in London	1
Electric supply in the Provinces, etc	1½
Electric supply in Victoria	1½
Electric traction at Shanghai	3
Electric tramways in Cape Colony	1½
Electric tramways in India	1
Electrical cable manufacturers	1
Electrical and pneumatic power in Transvaal	3
Electrical machinery, etc., manufacture of	1
Electrode manufacture	*nil*
Engineering in Bengal	2
Erinoid manufacture	1½
Explosives, manufacture of	2
Flax preparation in Great Britain	4
Flour milling in South America	1½
Gas mantles, manufacture of	3
Gold mining in British India	21½
Gold mining in Colombia	9
Gold mining in Egypt	21½
Gold mining in Rhodesia	16½
Gold mining in West Africa	16½
Grain export from the Argentine	1½
Hosiery manufacture	nil
Importers of table glassware	*nil*
Indigo growing	6
Iron and steel manufacture in Bengal	4
Iron ore mining in Algeria	8
Iron pyrites in the Iberian Peninsula	*nil*
Jute merchants	*nil*
Jute spinning, etc., in Bengal	1
Lead mining in Western Australia	8

	Additional Percentage
Lending money on mortgage in Mauritius	1½
London omnibuses	2
London wholesale tea and coffee dealers	*nil*
Magnesite mining in Greece	4
Magnet manufacture	5
Magneto manufacture	5
Manganese ore mining in Great Britain	10
Manganese ore mining in India	4
Mangrove products (Borneo)	4
Marine salvage	9
Merchants in Philippine Islands	1½
Military Ornaments, etc., manufacture of	2½
Mining in Burma	6½
Motor manufacture	1
Music halls	5
Myrabolom production in India	5
Newspapers (mainly dissemination of news and not comment) in Scotland	2
Newspapers (England, Wales and Ireland)	2
Nickel mining in New Caledonia	2
Nitrate extraction in Chile	3
Oil producing in California	2½
Oil producing in Trinidad	8
Oil raising in Assam	2
Oil raising in Burmah	2½
Oil raising in Caucasus	4½
Oil raising in Persia	5
Oil raising in Peru	2½
Oil raising in Roumania	2½
Oil raising in South Russia	8
Paint, colour and varnish manufacture	*nil*
Pig iron, manufacture of	1
Portland cement manufacture in South Africa	2½
Potato flake manufacture	*nil*
Provincial omnibuses	2
Quebracho tree, extraction of essences from	3
Road-making material, manufacture of	2½
Rubber goods, manufacture of	*nil*
Rubber growing	4
Rubber production in Bolivia	4
Salt, production of	1½
Shale	3½
Sheep-farming in Chile and Patagonia	5
Shipping, specially designed	*nil*
Silica ware, manufacture of	2
Steel manufacture	2
Stevedores	*nil*
Straits Plantations, Ltd.	4
Sugar growing in Argentine	5
Sugar growing in British India	5
Sugar growing in Mauritius	5½
Sugar growing in Natal	5½
Sugar growing in Portuguese East Africa	5½
Sugar growing in West Indies, etc.	5
Sulphide mining in New South Wales	3½
Synthetic dyestuffs, production of	3
Tea growing and manufacture in British India and Ceylon	2
Tea growing and manufacture in Netherlands, East Indies	2
Telephone service in Chile	1½

	Additional Percentage
Theaters in the West End of London	9
Theaters elsewhere than in the West End of London	5
Thoroughbred breeders	7
Tin dredging in Malay and Siam	7
Tin mining in Malay	7
Tin mining in Malay (Lode tin)	10
Tin mining in Nigeria	7
Tin mining in United Kingdom	19
Tramways and light railways	1½
Tramways in New Zealand	1½
Tramways in Victoria	1½
Tungsten, etc., manufacture of (for high-speed steel)	6
Tungsten and molybdenum, manufacture of	6
Wattle growing in Natal	8
Wolfram mining in Portugal	5
Wood pulp manufacture in Portugal	2
Zinc oxide manufacture in United Kingdom	6

Success of the Board of Referees.—In the course of the budget debate on May 2, 1917, Mr. McKenna took occasion to bestow high praise upon the Board of Referees in the following words:

"It is only fair that our attention should be drawn to another factor which has greatly facilitated the operation of the tax. One of the elements of great doubt was the settling of disputed questions by particular trades as to what their allowances should be in the way of interest. The settlement of that question in regard to each trade was referred to a body of referees set up and presided over in the first instance by my right hon. Friend the Irish Secretary, whom I am glad to see in his place. The very great ability and celerity with which that work was done far exceeded the anticipations which were formed at the time, with the result that the Treasury had been able to collect not far short of double the amount which we estimated would come in in April last."[306]

The approval of the Board here expressed is re-echoed from every quarter. The officials of the Inland Revenue testify that it has proved to be an invaluable part of the machinery. Even though its function appears on the surface to be a somewhat mechanical "rubber stamping" of the recommendations of the Inland Revenue, as a matter of fact the sanction of the Referees is something very vital and important and their attitude toward a particular question can never be definitely foretold. At any time the Board may insist upon something very different from what the Revenue desires. The public generally has the

[306] Debates, 93: 395-6.

greatest confidence in the Board. The business men consider it their especial representative. The Association of British Chambers of Commerce, in giving evidence through Sir Algernon F. Firth, Bt., before the Royal Commission on the Income Tax, referred to the Board with approval as a body which "has had and is having a most valuable experience" and recommended the extension of its functions for income-tax purposes."[307]

Decisions of the Board are accepted gracefully. To complain about an award, when the proceedings are conducted essentially as an arbitration, is considered to be very "bad form." The writer heard of only one case where a trader had failed to accept his decision with good grace and he was quite frankly dubbed a "poor sport" by the business man who mentioned the occurrence.

Summary

The chronological account of the development of the statute given in Part One (pages 1-24) renders it unnecessary to summarize the statutory provisions again at this place. It remains, however, to indicate those points in the British procedure and organization which are particularly interesting and suggestive to students of the American problem.

The most troublesome problem encountered in the administration of our excess profits tax has been, of course, the equitable treatment of the abnormal cases. The main provisions of the law are necessarily framed with the typical normal case in view and if a concern has no particular features the application of the tax usually occasions no great hardship. However, real distress and inequity often does appear when the invested capital cannot be readily determined; or when, because of the nature of the business or because good-will has been excluded under the arbitrary limitation, the invested capital bears slight relationship to the profits; or when an ordinarily large sum is realized in a single year, perhaps as the result of the sale of a capital asset, and under various other special circumstances.

Indeed a very large percentage of the cases appear to deserve special consideration and treatment. Our attempts to care for these abnormal cases have not given satisfaction. We have found it difficult to introduce the desirable elasticity into our statute and to utilize such elasticity as exists in a broad and fair spirit.

307 Monthly Proceedings of the Association of British Chambers of Commerce, July 1919, No. 653, p. 60.

The threatened breakdown of our administration is traceable in large part to this situation. A taxpayer who is convinced from his experience with the Treasury that the Government either cannot or will not give him equitable treatment will be inclined to take measures to protect himself and will ordinarily have few qualms of conscience if those measures fail to square with the spirit and the letter of the law.

Our system is inflexible. It attempts to apply the tax by fixed and arbitrary rules. Small discretion is vested in our administrative officers. Such relief measures as are embodied in our law are hedged about with restrictions so numerous as to thwart their purpose. We take tremendous taxes in prosperous years and make no allowance for abnormally poor years in the individual history of an enterprise. The principal relief sections (Sec. 210 of our 1917 law and Sec. 328 of our 1918 law) are administered by Star Chamber proceedings. The taxpayer is assured that he has been assessed on the basis of representative concerns but is denied any information as to the identity of the concerns chosen as representative. He often feels (perhaps without justice) that he has been assessed on no basis whatever except the judgment of the administrative officials, a judgment that may have been tempered by sympathy for his plight or adversely influenced by considerations outside the scope of a taxing statute. He knows that in any trade or business individual instances of large earnings (and consequently heavy taxes) or of small earnings (and light taxes) may readily be found—and consequently that "representative concerns" may be selected within a wide range. It is natural for him to assume, therefore, that the power to assess him is arbitrary, practically unchecked and wholly contrary to our American principles of taxation. Nor is his criticism entirely without foundation. Under the sections referred to exists virtually the power to tax without certain and definite restraint. On the other hand, the provisions are ineffective to grant relief in many cases, for the measure of relief is the tax paid by representative concerns, a matter which may be entirely immaterial to a particular case. We have in these provisions a makeshift which serves to confer too great discretion in some cases and too little power to grant relief in other cases. Our solution of the problem in abnormal cases should lie in a consideration of the abnormal factors and their adjustment to fit the scheme of taxation as applied to normal cases.

The British appear to have achieved success where we have failed, for it is clear that they have been able to solve the problem of the abnormal case with a fair degree of satisfaction to all concerned. How they have met this problem is really the theme which runs through the entire Part Two of this report.

The statute itself is very broad in character, contenting itself with general indications as to how the administrators shall proceed in solving the specific questions which arise. The act is fully "cushioned." At every point in the procedure provision is made for dealing with exceptions. The machinery of assessment is constructed with a view to giving expert assistance to the taxpayer in arriving at his liability and is animated with a spirit of reasonableness and with an eagerness to achieve equity. Amazingly wide discretion is vested in the administrative officials and a very complete series of appeals are available to taxpayers who are dissatisfied with the manner in which that discretion has been used. The collection of the Duty is postponed, interest-free, in cases where prompt payment would cause hardship. The calculation of invested capital, while in some cases more narrow than ours, is almost entirely free from the arbitrary restrictions and limitations which hedge about that process under our statute. In the determination of taxable profits very different principles (*e.g.* the conception of the accounting period which permits losses to be charged back to previous years—and the interpretation of the term profits in such a manner as to exclude capital gains) govern the procedure with the result that many of our "hard cases" never arise. Special relief is given both to general classes of trade or business and to individual taxpayers but more care is taken there than here to apply relief to all taxpayers within a class.

Attention is directed particularly to the sections of the preceding discussion which deal with the following topics: the additional statutory percentages granted upon appeal;[308] the provisions for losses;[309] the concessions granted in connection with trading stocks (inventories);[310] the wide discretion vested in the administration to grant relief in cases of unusual depreciation, obsolescence, postponed repairs, etc.;[311] the recognition of patents

[308] *Supra,* p. 130, *et seq.*
[309] *Supra,* p. 45, *et seq.*
[310] *Supra,* p. 57, *et seq.*
[311] *Supra,* p. 50, *et seq.*

and secret processes as material assets and the general absence of restrictions upon the computation of invested capital;[312] the assessment organization and policy designed to eliminate indefiniteness and uncertainty[313] and the very elaborate and satisfactory appeal system.[314] The various provisions which make the British law elastic are so widely scattered in the text of this report that the following summary may serve a useful purpose in emphasizing their extent and importance. The rigor of the statute is mitigated:—

1. In the case of small but profitable concerns with low pre-war standards, by the operation of the special provisions regarding the initial exemption;[315]

2. In the case of concerns with irregular income (a) by the absence of progressive rates which have the effect in this country of making the total tax heavier upon a concern with an irregular income than upon one whose income accrues regularly, (b) by the fact that one great cause of irregularity of profits—the falling-in of capital gains—is practically eliminated, (c) by the abandonment of the conception of profits as an annual gain through the general permission to reduce the profits of preceding years to the extent that profits in later years are abnormally low, through the recognition as a deduction for purposes of the Excess Profits Duty of any profits[316] applied to the extinction of a net loss during the pre-war years and the permission to charge back inventory losses realized after the Duty ceases to operate and (d) by sanctioning a very reasonable allocation of long-term contracts;

3. In the case of concerns owning capital which was unremunerative before the war, by a modification in the profits standard sufficient to increase the return on such capital to the level of the statutory percentage;

4. In the case of concerns subject to the tax on investment income, by permitting the deduction of unrealized losses in capital value of securities in so far as they are due to variations in the value of money;

312 *Supra*, p. 80, *et seq.*

313 *Supra*, p. 98, *et seq.*

314 *Supra*, p. 115, *et seq.*

315 Their sliding scale, however, gives them less relief than our own flat exemption of $3000. *Cf. supra*, p. 33 *et seq.*

316 Unless the percentage standard is used, the capital account must show a debit balance if the deduction is to be made.

5. In the case of trades which operate under conditions of unusual waste, risk or deferred returns, by permitting appeals to the Board of Referees for increases in the statutory percentage;

6. In the case of concerns operating under war conditions, by special allowances for depreciation, postponed repairs and obsolescence upon appeal to the Commissioners, with further appeal to the Board of Referees;

7. In the case of concerns whose invested capital, because of the nature of the business, is small compared with the capital necessarily at stake, by permitting an application to the Board of Referees for a special percentage standard;

8. In the case of new agencies and similar concerns, by permitting the use of the income of the agent during the pre-war period from any "trade, business, office, employment or profession of any sort" whether liable to Excess Profits Duty or not, carried on by the agent or other person before his new trade or business commenced.[317]

9. In the case of new concerns which began before the war but too recently to have established a full pre-war trade year, by permitting them a standard establishment by applying the 9 or 11 per cent rate to all capital instead of insisting upon the 6 or 8 per cent rates on such portion of the capital as was invested at the end of the last accounting period before the outbreak of the war.

10. In the case of concerns which have changed ownership since the commencement of the three last pre-war trade years, by giving them the option of being treated as a new concern or of retaining the profits standard of the old concern;

11. In the case of munitions concerns, by permitting them to appeal to the Board of Referees for a special profits standard;

12. In the case of a concern with pre-war losses, by authorizing the Commissioners to ignore pre-war losses when several industries are operating under one management and are using the profits standard and by permitting recognition as invested capital of former assets which have disappeared or of indebtedness which has increased when there have been trading losses in the pre-war years and the percentage standard is used; and

13. In the case of concerns generally, by the alternative prewar standard with the option in favor of the taxpayer, rather than against him, by the more narrow definition of profits, by the

317 For limitation, *cf. supra*, p. 75.

almost total lack of restrictions upon the recognition of assets as invested capital, by the liberal provision for adjustments in special cases, by the convenient and complete appeal system, and, finally, by the capable and adequate administrative organization functioning with a spirit of liberality and fairness.

How far it is possible for us to follow British precedents with our different institutions and our different general conditions is a question but it is apparent that the British procedure is full of suggestions for the improvement of our own.

PART THREE

FISCAL AND ECONOMIC CONSEQUENCES

PART THREE

FISCAL AND ECONOMIC CONSEQUENCES

Yield of the Duty

The great productivity of the Excess Profits Duty has been its most remarkable feature. As is shown in the table which follows, Great Britain has collected in five years nearly one billion pounds from this source—approximately one-fourth of her total receipts from both tax and non-tax revenue.

Comparison of Receipts from Excess Profits Duty with Total Revenue[1]

(Fiscal years ending March 31st)

	Receipts from Excess Profits Duty	Total Receipts—Tax and non-Tax Revenue	Percentage furnished by Excess Profits Duty
	£	£	
1915-16	140,000	336,767,000	0.04
1916-17	139,920,000	573,428,000	24.4
1917-18	220,214,000	707,235,000	31.1
1918-19	285,028,000	889,021,000	32.1
1919-20	290,045,000	1,339,571,000	21.6
Total	935,347,000	3,846,022,000	24.3

1 The data are compiled from the official financial statements. The receipts from the Excess Mineral Rights Duty are not included in the figures given as representing the yield of the Excess Profits Duty. Instead they are merged with the Land Value Duties which are not itemized in the financial statements. Some data regarding the yield of the Excess Mineral Rights Duty are available, however, in the Reports of the Commissioners of Inland Revenue but the figures, being net receipts of the Inland Revenue, are prepared on a different basis from the figures used in the Financial statement. Moreover, because of the delay in printing the reports, the data are not complete. It will be seen, however, from the following items that this part of the Duty was relatively insignificant.

Net Receipts by Inland Revenue from Excess Mineral Rights Duty

(Compiled from reports of Commissioners of Inland Revenue, 1916, p. 67; 1917, p. 5 and 1918, p. 4. Years ending March 31st)

	£
1916	3,078
1917	152,832
1918	262,536

A comparison of the receipts with the budget estimates is of particular interest to American readers as indicative of the degree of accuracy with which the British Treasury is able to forecast the amount of its revenues, even in the case of a new and complicated measure like the Excess Profits Duty.

ESTIMATES AND COLLECTIONS OF EXCESS PROFITS DUTY[1]
(Fiscal years ending March 31st)

	Budget Estimate[2]	Receipts	Receipts, more (+) or less (—) than Budget Estimate
	£	£	£
1915-16	6,000,000	140,000	— 5,860,000
1916-17	86,000,000	139,920,000	+53,920,000
1917-18	200,000,000	220,214,000	+20,214,000
1918-19	300,000,000	285,028,000	—14,972,000
1919-20	300,000,000	290,045,000	— 9,955,000
1920-21	210,000,000[3]		

1 Data compiled from official financial statements.

2 In several cases apparently the estimates were revised during the course of the year. In such cases the figures given represent the revised figures.

3 This estimate, which appears in the Financial Statement, 1920-21, page 6, assumes the 40 per cent rate. Mr. Chamberlain asked for and will probably be given the 60 per cent rate. This would yield, he estimated, £10,000,000 above the £210,000,000 budgeted for 1920-21 and would produce in addition £65,000,000 which would not be paid until 1921-22 and £25,000,000 to be paid the year after, making £100,000,000 additional in all. Speech on making the Financial Statement, April 19, 1920, p. 15. Finally, a full statement should include the outstanding arrears.

In considering the statistics of the yield the British policy of postponing collections must be taken into account. In the summer of 1919 the arrears of the Excess Profits Duty were estimated at no less than £200,000,000.[1] Moreover the bare figures of the collections may be somewhat illusory because concerns subject to the Duty have taken their probable tax liability into account when arriving at prices under government contracts. The figures given do not always represent *net* gain to the Treasury because the existence of the Excess Profits Duty appears to have made it necessary in certain cases for the government to pay more for its supplies than it would, had there been no Duty. The business men speak very confidently on this point and even the Treasury officials

1 *Cf. supra*, p. 115.

testify that it was probably a factor of some importance during the early years of the war. After 1917, however, conditions were controlled so closely that this element is said to have declined into insignificance.

Evasion and Avoidance

When one comes to deal with consequences other than the direct fiscal effects of the Duty the treatment necessarily becomes somewhat indefinite and unsatisfactory. The various economic results of a tax may be said never to be susceptible of exact quantitative measurement and, in any event, the writer had no opportunity to attempt a comprehensive original study of such effects. All that was practicable was to approach selected persons and to ask them directly what they thought the effects had been. Most of these persons declined to be quoted directly. Some of them had apparently given no serious thought to the problem. Others expressed opinions which were obviously dictated by their interests.[2] On the whole, however, the investigator was impressed by the frankness and the acuteness with which most of the questions were discussed. He believes that in almost every case the opinions given were both intelligent and honest. However, he wishes to emphasize the fact that after all they were merely opinions and that evidence so gathered must be used with great discretion.

The statements ordinarily encountered in England regarding the economic effects of the Duty are similar to those being made in this country. It is freely alleged, particularly by those who desire its repeal, that the tax represses industry, energy, initiative and enterprise; that it encourages wasteful expenditure and recklessness; that it increases prices and the cost of living and that its operation is discriminative and unfair.

Many of the most unfavorable economic consequences result from efforts to escape the burden of the Duty. The question as to how much of the tax is shifted in the form of increased prices

[2] The investigator recalls particularly an interview with a British merchant which was interrupted by the boisterous entrance of one of the stockholders in the concern who joyfully congratulated the managing director on the unparalleled prosperity of the concern as evidenced by the statement just received by him. Much to the embarrassment of the merchant the interruption happened to occur in the midst of an eloquent description of the blasting and depressing effect which the Excess Profits Duty had had upon his own business.

is of significance in this connection but is treated elsewhere.[3] The methods of avoidance and evasion are endless in variety and marvelous in ingenuity. At one extreme stands the device of the prosperous factory owner who declines to exert himself because the taxes upon profits resulting from additional effort leave him too little to tempt him to further activity. He escapes the tax by becoming an industrial slacker but this is a form of avoidance which can scarcely be classified as evasion and it is impossible to prevent or punish it. At the other extreme stands the petty, crude stealing of the small business man who puts his family on his payroll at fat salaries for nominal duties or refrains from recording on his books some of his more profitable transactions.

Between these two extremes lie devices representing every degree of variation in legitimacy and legality. An owner of a rubber plantation postpones tapping his trees until the profits tax shall have disappeared. This results in an undesirable disturbance of the normal course of production yet no action short of declaring the profits tax at present rates a permanent part of the revenue system can prevent the practice. A manufacturer makes low prices to his old customers, hoping to keep their good-will. "Why should I act as tax-collector for the government?" he asks.[4] The factory owner spends his excess profits, otherwise subject to tax, for almost any purpose which, while it can be classified as an expense chargeable to the present year's income, may nevertheless result in increased profits in that future time when profits taxes will be no more, or in an improved goodwill which can ordinarily be sold at any time as a part of the business assets under the English law without the profit becoming subject to income tax or profits duty. This seems to be the cause of the heavy advertising which has been a feature of war-time England.[5] The manager of a large commercial house explained in this way the decision he had made to seize this opportunity for establishing a large number of branch agencies which would for the first few years be losing ventures. If the excess profits duty has depressed those businesses which promise quick returns it has at the same time stimulated other businesses which offer deferred profits.

Renovations and repairs are made on a lavish scale. Greatly

[3] *Cf. infra*, p. 155 *et seq.*

[4] *Cf.* Debates, 74: 368.

[5] Only the shortage of paper limited the expenditure for advertising according to one Treasury official.

increased salaries are paid, especially in the case of those employees who will be likely to remember the employer's generosity and tacitly accept it as advance payment of salary. One foreman chuckled over a half-dozen entirely unexpected and admittedly undeserved bonuses which had fallen into his lap during the last year.

These expenditures for purposes which promise future rather than present returns shade off into mere wasteful extravagance. When the government took £86 out of the £100 of an excess profit (that is, 80 per cent profits duty plus income tax at six shillings in the pound) the tendency was to buy any article selling for £100 which had a value to the taxpayer of £14 or more. Even with the profits tax rate reduced to 40 per cent, the income tax and profits duty take together 58 per cent of the excess profit. Best informed British opinion places the maximum share which can be safely taken by the Government at about 50 per cent. If the government takes more than half of the pound of profit, abuses, it is believed, are certain to develop.

In England when one concern buys out another the pre-war records of the two concerns are amalgamated and form the standard by which to measure the excess profits of the combined businesses. This has led to a lively traffic in bankrupt or near-bankrupt concerns which were prosperous before the war. There is competition for the privilege of using the pre-war records of these now unprofitable businesses.

There has also been a very strong tendency to escape the tax by undervaluing inventories. "In times such as these," observed one business man, "one views his stocks through the wrong end of the telescope." Another merchant cited the case of a business he had recently acquired where the stock valued for tax purposes at £3000 was easily worth nearly double that sum. A large manufacturer testified that materials in the process of manufacture had almost disappeared from the accounts of many plants, such items being easy to manipulate with little danger of detection by the officials of the Inland Revenue.

Everyone agrees that there was comparatively little outright evasion of the Duty during the war. Sentiment then strongly favored the tax and direct evasion was considered a crime little short of treason. Since the armistice, however, an entirely different spirit has been present. The circumvention of the statute has now become a fascinating game at which large numbers ap-

parently try their hand. Whether evasion can be prevented is a question upon which there is the greatest difference of opinion. The Rt. Hon. Reginald McKenna, who, when Chancellor of the Exchequer, introduced the profits tax, remarked that the Inland Revenue had been since 1842 building up an income tax which would prevent evasion and that it would require another hundred years to devise a successful method of administering a profits tax! On the other hand it must be recognized that many of the devices enumerated above are designed to postpone the yield of the business until the profits tax has been abolished. If the tax were made permanent, the efficiency of all such arrangements would disappear. Again, the wastefulness and extravagance in expenditure attributed to the tax is caused by the heaviness of the rates. There is general agreement that from this point of view the 80 per cent rate was a mistake. The prevention of evasion would be a very different problem if the tax were expected to continue indefinitely and at a moderate rate.

Effects upon Business

In 1917, Mr. McKenna, who cannot fairly be charged with being a violent partisan of the Duty, made the following statement in the House of Commons:

"I, for one, would never have anticipated that a revenue of this magnitude would have flowed into the national coffers without apparently the slightest injury to our trade or business credit or commerce."[6] Mr. McKenna is able today to point out injurious effects which have become apparent since his speech, but it is indeed remarkable that the injury and disturbance has apparently been so slight. It must be borne in mind, of course, that the entire situation is a highly abnormal one and affords no true guide as to what effects may be expected from the operation of a heavy profits tax under the ordinary competitive conditions of peace.

Effect upon Business Stability.—The collection of the Excess Profits Duty has been accomplished without acute distress to the taxpayers. Few have found it necessary to borrow from the banks to meet the payments. The Treasury officials insist that no concern has been seriously embarrassed. There are several reasons for this, the most immediate being the Treasury policy of postponing collections whenever there appeared to be ade-

[6] Debates, 93:398.

quate ground for so doing. Then, also, the trading has, of course, been done predominately on a rising market.

However, from the fact that there have been no failures directly traceable to the Duty it may not be fairly inferred that the strength of the business concerns has not been impaired through the collection of these huge sums.[7] Reserves which might otherwise have been accumulated are non-existent. It has been difficult for business men to increase their capital investment at the very time when increased capital was necessary to the continuation of their business on even the same scale as before. One manufacturer stated that at that particular time of year he would ordinarily be manufacturing for stock, but that the high prices of materials and the necessity of meeting Excess Profits Duty payments made it impossible for him to do so. But here one may not generalize. Many British corporations ordinarily pay out profits in dividends very closely and do not build up capital through reinvestment of current earnings. The writer was told by a merchant intimately associated with the textile trade that there had been no weakening of reserves in that industry but that, on the contrary, most of the concerns were coming out of the war with stronger financial resources than they had ever had before. Representatives of certain other lines of manufacturing, on the other hand, testified that, while there might be no obvious evidences of weakness, the real test still lay ahead and that many concerns would find themselves seriously compromised should they encounter a period of falling prices. Last year's Duty is often paid from this year's earnings, the profits which formed the basis for the assessment having been promptly "ploughed into the business" in the form of plant extensions or inventories valued at high prices. However, the provisions already made or contemplated by the Government for preventing hardship from losses due to inventory shrinkages[8] will undoubtedly tend to alleviate the dangers in this situation. Obviously it is one which holds sinister possibilities in a period of depression.

Whether the effects of the Duty on business stability are more or less serious than would have been the effects of some alternative tax producing the same revenue is an open question.

Repressive Effects.—The tendencies described in the preceding section may, of course, have serious repressive and restrictive

[7] *Cf.* Debates, 81:1078.

[8] *Cf. supra*, p. 57 *et seq.*

effects even though they do not result in serious instability or positive business failures. It is the universal testimony of business men in England that the tax has been a real burden. Not only has it depleted the funds which otherwise would have been available for expansion and development but, through the constant threat of appropriation of possible future profits it has discouraged the initiation of many new enterprises.

The point last stated was especially stressed by a large steel manufacturer. He stated quite frankly that the existence of the Duty had been a prominent influence in preventing the full resumption of business in his own plants. He did not intend to "get down to business," he declared, until he could secure some definite idea as to what was going to happen to future values because under the present arrangements he would have to take risks entirely out of proportion to the profits he would be permitted to retain even if very successful.

It is obvious that to take from an enterpriser the fruits of his efforts will tend to discourage his activities. The Excess Profits Duty, especially at the 80 per cent rate and coupled with high income taxation, took a very large share of those fruits. When there is added to this situation the possibility of early repeal or substantial modification, the repressive effect for the immediate present is materially heightened. The British business men allege that their Duty tends to sanctify the traditional profits of well-established concerns, rendering them immune from competition, and that it tends to discriminate against young and growing businesses. They claim that it places a penalty on aggressiveness and ability and a bounty on conservatism.

Such arguments must be considered in connection with all of the factors in the situation. A tax which singles out the more able for a special contribution does not do violence to accepted conceptions of fiscal equity. Moreover, the repression argument is often used somewhat inconsistently by those who insist that the tax is shifted in the form of higher prices. Again there is some evidence that the net effect of the tax in some cases is distortion rather than repression as, for example, when swollen expenditures, deducted as current expenses, are designed to ripen into income at some future time after the Duty has disappeared. Whatever stimulation results from such distorted investment must be offset against the repressive tendency. Finally, sound conclusions can be reached only by taking fiscal necessities into account. The

ill effects of the Duty in the direction of repression must be contrasted not with a situation where no substitute tax is imposed but rather with a situation as it may be assumed to exist with other taxation in force sufficient to yield the same revenue. Thus if the profits tax is actually borne by the business and not shifted in increased prices the business man may offer his wares to a community whose purchasing power is unimpaired. If the sum now raised by the profits tax were placed directly on articles of consumption in the form of commodity taxes it is conceivable that this method of raising the money might prove to be repressive, perhaps even more so than the profits tax, because of diminished purchasing power and disturbed conditions resulting therefrom.

In general it is clear that the effect of the Duty in Great Britain has been repressive but it is not evident that it has been more restrictive or repressive than any available alternative would have been. The writer found only one business man, among the dozens questioned on the point, who professed to believe that the Duty was more repressive than a capital levy, the substitute most actively advanced.

Discrimination.- One of the most telling criticisms urged against our Excess Profits Tax is that it operates in a capricious and unequal manner, taxing heavily businesses which should be encouraged while laying a light hand upon others which should pay heavy tribute under such a law. The blame for the discrimination in this country rests partly upon our statute and partly upon our administration.

The writer found no one in England who intimated that there had been any discrimination in the administration of the Duty. All agreed that even-handed justice had been given as between business and business so far as it was administratively possible to achieve it. Many of the persons interviewed, however, were very emphatic in their assertions that a profits tax with a pre-war profits standard inevitably worked injustice in the application of its fundamental principle. The general assumption that all increased profits over and above the pre-war level are excessive is, they insist, both crude and contrary to fact. Even with the safeguard of the alternative "percentage standard," the young, progressive business which during the pre-war period was just "getting on its feet" is often at a disadvantage. Accident or chance in the early history of a business sometimes has a profound effect upon the amount of the Duty payable. One manufacturer con-

gratulated himself upon the fact that his concern had inaugurated the practice of paying heavy directors' salaries just before the outbreak of the war but late enough to enable him to select a very favorable pre-war profits standard by going back to still earlier years under the six-year option.

In discussing the discriminatory effects of the Duty, Bonar Law made this statement in the House of Commons in 1917:

"It does tell very unfairly and it is inevitable that it should. . . . . It tells unfairly against one trade as against another trade. In many cases it tells against particular methods of carrying on trade as against other methods of carrying on the same trade. I recognize all that."[9]

An inspection of the various relief provisions will make it clear that the administration in Great Britain can go much further than is possible under our statute to eliminate discriminations. The situation in this respect is undoubtedly very much better than that which exists here but the fact remains that in spite of better administration and the greater elasticity of the statute, considerable complaint is made in England regarding the inequity of the tax as between two businesses of substantially the same economic strength.

Effect on Business Morale.—Business men freely assert that the Excess Profits Duty has encouraged high costs of production. The fact that after a certain point is reached additional expenditures cost the concern little has been capitalized by labor leaders in arguing for increased wages[10] and has been used as an excuse by managers for laxity and ineffective control of expenses. Mr. Stanley Baldwin, Lord Commissioner of the Treasury, commented on this situation as follows before a deputation of the Association of Chambers of Commerce.

"I think that point that Sir Algernon put about the result of the Excess Profits Tax on the *morale* of business, is a very genuine one indeed. I do think the tendency of the Excess Profits Tax in this country, especially as the amount rises, is to take away a certain amount of initiative, which is very bad for business. It also encourages carelessness in management. I was very much struck by what you said, Sir Algernon, because it is within my experience that there comes an idea amongst masters and men that it does not matter what you pay in wages or in management

[9] Debates, 93:384.

[10] Association of Chambers of Commerce, Deputation of April 24, 1917, p. 7.

expenses, because it has all to come out of the Government and so what does it matter?"[11]

It is interesting to note that these lowered standards in management are pointed out as one of the effects of the Duty which is most likely to prove embarrassing in the post-war competition with this country.

Miscellaneous Effects—In addition to the more important business effects noted above, various incidental effects are ascribed to the Duty. The labor leaders give the Duty considerable credit for the growth of "welfare work" in British industrial plants and for the improvement in industrial housing. Expenditures for such purposes were ordinarily deductible as expenses which virtually amounted to Government payment so long as the Munitions Levy was in force and even under the Excess Profits Duty so long as the rate was 80 per cent.

Another indirect and incidental effect has been the influence of the Duty upon British business policy with regard to the scrapping of plant. The liberal deductions permitted during the war for obsolescence stimulated the practice of scrapping machinery which had become worn or out-of-date. The reluctance of the British to discard such machinery has been often pointed out as one of their competitive short-comings so that the influence of the Duty in this direction is considered salutary by their best busi-

Effects upon Prices

Precisely what effects the Duty has had upon prices it is impossible to say. Some conception of the diversity of the testimony may be gathered from the following opinions of representative Englishmen:

A merchant: "The Duty has had only a slight effect upon prices."

A merchant: "There has been little effect upon prices in the merchandizing lines."

A bank president: "The tax has had no effect at all on prices. It is a sellers' market and under present conditions the sellers would charge just as much if there were no tax."

A banker: "The Duty has had an enormous effect upon prices. Business men have come to allow for it and have passed it on to the consumer."

11 *Ibid.*, p. 15.
12 *Cf.* Bonar Law's opinion. Debates, 93:383.

A financial editor: "Under the abnormal conditions which have been present there has probably been some effect upon prices. I cannot see, however, how such a cause can affect prices in general."

A steel manufacturer: "In normal times I should expect little effect or none at all. In times of controlled industry and undersupply, however, it has probably been of great importance."

A textile manufacturer: "In the textile trade the tax has been used as a pretext and excuse for profiteering. Prices would have been as high without it."

A glove manufacturer: "There is no question but that the Duty has had a great effect upon prices especially in controlled establishments."

An economist: "The Duty increased the cost of munitions manufactured in Controlled Establishments. It was only in such establishments, however, or in other situations where competition was absent that the Duty could have been responsible for increased prices."

An economist: "Of course a profits tax cannot increase competitive prices."

A public official: "The tax has had a very profound effect on prices. Every business man down the line—manufacturer, wholesaler and retailer—has added it on and passed it along. The charge has been cumulative under the conditions of control and restricted supply which have obtained."

An accountant: "It has had a serious effect. Business conditions have been abnormal. Business men have been able to dictate their own prices and they have felt that they must get profits after paying taxes fully as great as they formerly received."

The English newspapers are full of complaints placing upon the tax a large part of the responsibility for the prevailing high prices. Sidney Webb asserts that such statements, so far as they refer to commodities not under government control, spring from "sheer ignorance" and most of the economists agree with him. Business men, however, almost universally testify that the tax has influenced them to increase their prices. They claim that by a curious inversion the tax, designed in part as a corrective of excess profits, becomes itself a cause of excess profits. But in some of these cases one suspects that the tax has been seized upon as an excuse for monopoly prices which would be just as high in the absence of the Levy and that the argument represents at once an apology for past greed and a plea for future exemption from just burdens. One manufacturer told the investigator that his concern, suddenly finding itself after a number of lean years in possession of a large stock and confronted with a demand so great that it could not possibly meet it, was in a position where it could ask almost any price it chose for its product, and the fact that

the profits duty had to be paid influenced his directors to charge a higher price than they otherwise would have asked. Such tender-hearted tyros at profiteering who depend on the tax to give them moral courage to charge what they can get for their goods in the market are probably rare economic phenomena and, moreover, unless they happen to be selling directly to the consumer anything they refrain from adding to their price is probably added to it by the next man in the marketing chain, so that the ultimate retail price is no lower.

On the other hand, another manufacturer testified that he had deliberately reduced his prices to avoid the tax, expecting by offering his goods at very reasonable rates to build up a good-will which would yield added returns later when the profits tax had disappeared.

It is not easy to understand how a tax which is imposed only after moderate profits have been accumulated can operate in an important and direct fashion as a cause of high prices, if the market is freely competitive. Even in a seller's market such as exists in many lines today, the power to charge a high price is not dependent upon the existence of such a tax. There probably are long-time, indirect effects in the direction of increased prices from a business tax such as this. If the Duty does encourage laxity in management, there would be a reflection in prices. The slightest repression on enterprise—and this tax undoubtedly does exercise some repression in the long run—would be expected to have such effects.

There is general agreement in England that in the case of commodities manufactured under government contract, especially during the earlier years of the war, the Excess Profits Duty was very often taken into account in arriving at a price. That is, the manufacturer usually considered the excess profits duty an expense and succeeded in securing terms which left him after paying it about the amount of profit he would have striven for had the tax not been in existence. Consequently the tax in England was probably to a considerable extent illusory, the government itself creating the profits which it took back in taxes.

Summary

(1) In the past five years the British Treasury has received approximately one-fourth of its total revenues from the tax on excess

profits—nearly one billion pounds in all. This enormous sum has been collected with surprisingly slight economic disturbance.

(2) During the war outright evasion was almost unknown but since the armistice many taxpayers have resorted to various methods of avoidance and evasion.

(3) The collection of the Duty has caused no business failures and has apparently not seriously undermined the stability of the business structure generally. There is no doubt, however, but that its general effect upon business has been restrictive and repressing. Whether its effect has been more unfavorable than the effects of some alternative tax is doubtful.

(4) Even with a more elastic statute and more efficient administration, it has proven impossible to avoid entirely the criticism that the Duty operates in certain cases in a capricious and discriminating fashion.

(5) It is freely asserted that the Duty has been an important influence making for high prices but the best-informed opinion appears to hold that the tax has been in most cases the excuse for and not the true cause of the increases in prices.

PART FOUR

FUTURE OF SPECIAL PROFITS TAXATION IN GREAT BRITAIN

PART FOUR

FUTURE OF SPECIAL PROFITS TAXATION IN GREAT BRITAIN

American interest in British plans for the future of special profits taxation in their country springs primarily from a desire to reach a wise solution of our own problem. Since general conditions in the two countries are fundamentally similar, it is but natural that British precedents should have great weight with us in arriving at decisions in the field of public finance. But, in addition, the American business man engaged in foreign trade has, of course, a special interest in the British practices and plans. While it is probable that the effects of special profits taxation upon the international competitive situation are greatly exaggerated, the trader, nevertheless, always displays a keen interest in the taxes which his competitors are called upon to pay. Finally even those business men who are not even remotely affected by British competition are interested. When they pay their heavy profits taxes here, they may derive some consolation from the knowledge that their British brothers continue to be subject to similar exactions.

The British Finance Act of 1920, recently adopted, continues the application of the Excess Profits Duty until August 5, 1921.[1] Not only does it continue the Duty when most British business men expected its entire abolition but it increases the rate from 40 per cent to 60 per cent. The circumstances which led up to this action and the outlook for further developments receive consideration in this section of the report.

The present British Excess Profits Duty was obviously designed as a temporary measure which would disappear at the end of the war. The use of pre-war profits as a datum-line is in itself sufficient to establish its temporary character. But to this internal evidence may be added the specific declarations of every Chancellor of the Exchequer who has held office since the introduction of the Duty.[2] The business men have accepted these declarations as virtual pledges and vehemently denounce the policy of continuing

[1] *Cf. infra*, p. 212.

[2] Debates, 81: 1044; 93: 890; 1920 budget speech, p. 15; Association of Chambers of Commerce, 1918, p. 20; 1919, p. 158.

the Duty.[3] Immediately after the close of the war pressure was brought to bear upon the Government to secure the entire abolition of the Duty. During the preparation of the 1919 budget the question was carefully considered but it proved impossible to forego the revenue. The Treasury, consequently, turned its attention to the problem of changing the Excess Profits Duty into some new form of excess profits tax which would be free from the anomalies incident to its application to the profits of years far remote from the pre-war period. This early project to establish a permanent excess profits tax appears to have been carried far along toward fruition before it was discarded for the moment and, as appears from the following section of Mr. Chamberlain's speech, delivered April 30, 1919, the project was merely postponed and not definitely abandoned:

" . . . I turn now to direct taxation, and, first of all, I must say something about the Excess Profits Duty. The tax in its present form is a war tax. It was imposed under the stress of war, and when, in the midst of the enormous burdens we had to bear, it was felt that profits in excess of pre-war profits might justly be called upon to make a special contribution. It is open to many objections, but it was a rough and ready method of justice which Parliament, in its then, happily, not very critical mood, accepted without too much difficulty, and the revenue results of it have been most satisfactory during the War period. . . . I do not wish to continue the tax a moment beyond what is necessary at so high a figure as at present; it would be contrary to public interest, and I do not propose to do it. On the other hand, I have to remember that, as I said, this is a war tax, that war expenditure is still continuing, that even after peace is signed war expenditure and the burdens of war will still remain, and *I am not in a position simply to repeal the Duty without finding anything to put in its place.*[4]

"In these circumstances my first effort was to find some form in which the profits of business might be called upon to make a special contribution to the revenue of the country without the anomalies and the objections to which the present tax is subject. I had before me suggestions made to that effect by my hon. Friend the Member for the Everton Division of Liverpool (Sir

[3] *Cf., Pall Mall Gazette,* April 20, 1920.

[4] The italics are the writer's.

J. Harmood-Banner) and by Mr. J. F. Mason, who was then a Member of the House, and who I very much regret is not now a Member, and by Mr. Lionel Hichens, a name well known in industry,[5] and I had also the example of taxation imposed with similar objects both in the United States and in Canada. But my information is imperfect, and the time at the disposal of myself and my colleagues has been short, and we have been subject, as the Committee knows, to other daily grave preoccupations. I need not say that it a new tax is to be imposed, it would in any case be necessary that it should be carefully thought out and its advantages and disadvantages carefully weighed in order that we should not repeat the anomalies or injustices of the existing tax. Therefore the form of the tax would be of great importance, and such an enquiry takes time. I have had other suggestions made to me, but the Government have not been able to give to the subject in the weeks before the Budget the attention which it requires for a satisfactory solution.

"Under the circumstances, therefore, I propose to the Committee, as a temporary and only as a temporary measure, to continue the existing tax for another year at the reduced rate of 40 per cent."[6]

It is evident from Mr. Chamberlain's speech that there was hope in his mind that he would be able in 1920 to substitute for the

[5] The proposals for the continuance of profits taxation made by several individuals, to which the Chancellor referred in the speech just quoted were these. Sir John Harmood-Banner in an article in the *Sunday Times* of November 10th, 1918, had urged the early abandonment of the present tax with its pre-war standard, but had favoured a profits tax in some other form. His proposal was discussed incidentally on the floor of the House of Commons about a week later. (Debates, 18th November, 1918, 3182-3.) Some months earlier, Mr. Mason had urged in the House that a profits tax be devised which would be coupled with a policy of government protection and assistance to British industry and would depend for its theoretical justification upon this aid thus extended. (April 22, 1918, Debates, 105: 781). Finally, in a lecture given in January, 1918, Mr. W. L. Hitchens, Chairman and Managing Director of Messrs. Cammell Laird & Co., Ltd., and prominent in the Association of the Controlled Establishments, had proposed a post-war tax on profits similar in general character to the War Profits Duty. He rested his case on the general ground of the moral and economic injustice of unlimited profits. ("A Moral Code in Industry." *Times*, January 19, 1918.)

[6] House of Commons—Session 1919. Report of the speech of the Rt. Hon. A. Chamberlain on making the Financial Statement, Wednesday, 30th April, 1919, separate print, pp. 16-17.

Excess Profits Duty some new type of permanent excess profits tax. At the time of the writer's visit to London in the summer of 1919, he found that most business men expected the early abandonment of the Excess Profits Duty but that they were giving almost no thought to the question of a substitute. Persons who were fully informed regarding the fiscal exigencies of the situation realized the necessity for such a substitute and were much occupied with the problem. The two possibilities most seriously discussed were the capital levy and the new profits tax suggested in Mr. Chamberlain's speech, quoted above. With the capital-levy proposals, interesting and ingenious though they were, this study is not directly concerned. Suffice it to say that they were so repugnant to the preconceived notions of the business men that their adoption seemed most improbable.

The proposal for a permanent profits tax had by this time assumed fairly definite form and was the plan which appeared to hold most promise of adoption. It is of interest to Americans to know that the best British opinion appeared to favor a tax of the general type of our own excess profits tax with its standard of invested capital and its progressive scale of rates. The British proposal met a number of the difficult problems connected with profits taxation in a manner which is in some instances suggestive. For example, they could see no justice in making the tax apply to corporations only as is the case under our present law. Again, they felt that the problem of business concerns with little or no invested capital could be fairly well met by utilizing a sliding scale of salary allowances instead of exempting them as we do. The distinction between a profession and a business is one which troubled them sorely, but nevertheless they considered it possible to establish the differentiation in a fashion similar to that used under the Excess Profits Duty. The fact that appreciations of property values are not considered taxable income in England raised a problem for them which has not troubled us seriously here. If they were to recognize as invested capital the full amount paid for assets, tangible and intangible, by the purchaser of a business, they realized that their new tax would be widely evaded unless it were coupled with some type of special increment tax upon the profit from the sale, imposed at the time of transfer. The difficulties of arranging such a tax, which in our case are cared for automatically in a fairly satisfactory manner under our income tax, led them to favor the adoption of the rule that assets should

be valued at cost to the original owner even after having been transferred to the new purchaser.

In the fall of 1919 Mr. Chamberlain dispatched a mission to America to study the profits taxes of this country and Canada[7] so that he was able to enter upon the preparation of the 1920 budget much more fully equipped with information with regard to excess profits taxes with invested capital standards than he had been a year before. The new data appears not to have been wholly reassuring but what was even more important was the violent reaction among the business men. The mere suggestion that the profits tax might be placed on a permanent basis raised a storm of protest and the proposal did not survive long enough to be presented to Parliament in the Chancellor's 1920 budget speech. The situation as it now exists is best presented in Mr. Chamberlain's own words:

I come now to the Excess Profits Duty. I attempted last year to state fairly the arguments for and against the Excess Profits Duty when I asked the Committee to continue it for another year at a reduced rate of 40 per cent. But there was one factor in the situation which I have to confess I entirely failed to forecast. If hon. Members will cast their minds back to the circumstances in which I spoke last year, I do not think they will blame me or pretend to greater prescience. Industry was then disorganised, unemployment was rife, and there was every prospect of declining prices and a great fall in profits. But the results have been far otherwise. There has been no such decline; on the contrary, manufacturers are overwhelmed with orders in excess of what they can execute. Prices have risen and the level of profits has still further increased. Had I foreseen this situation there would have been no such large reduction in the duty last year, and the Committee will not be surprised to learn that in view of it, and subject to one condition, which I will explain, we propose not only to continue the duty for another year, but to increase it as from 1st January last, not indeed to the 80 per cent. rate at which it was in force in 1917 and 1918, but to the 60 per cent. at which it was fixed in 1916. I base my justification for that proposal on the continued prevalence of temporary conditions occasioned by the War or arising out of the War, creating a state of scarcity, hardly distinguishable in effect from monopoly, and giving capital engaged in industry wholly abnormal and often extravagant profits. I propose to increase the rate subject to one qualification. The qualification is this. As the Committee is aware, a Select Committee of this House is now enquiring into the practicability of a levy on War increases of wealth. If, when they have completed their deliberations, the Committee make

[7] Unfortunately the report of this commission has not been made public.

recommendations to the House, and if Parliament should decide later in the year to impose such a levy, the funds thus made available will relieve the pressure of the financial situation and enable us to reverse the decision to increase the rate of Excess Profits Duty to 60 per cent. I shall propose, therefore, if it falls to my lot to submit to Parliament a Bill later in the year to make a levy on the increases of war wealth, to cancel this increase of the rate of Excess Profits Duty, and collect Excess Profits Duty for the year at the existing rate of 40 per cent. The increased revenue that will be derived from this source in the current year, on the assumption that the rate is 60 per cent., will be only £10,000,000, raising the estimate of the total revenue from this source from £210,000,000 to £220,000,000. As I have already reminded the Committee, the main effect of any change in the rate of Excess Profits Duty is felt in the year following the change, and more important than the additional £10,000,000 in cash this year will be the further sum amounting to £65,000,000 accruing but not collected during the present year, and a still further sum of £25,000,000 receivable the year after. In other words, the addition to the Tax will produce £100,000,000 in all. This increase will involve a corresponding increase in the rate of Excess Mineral Rights Duty, a Duty which is complementary to the Excess Profits Duty.

But whilst I consider that these proposals are not merely justified but are required by the abnormal conditions now prevailing, I also hold that this tax itself, like those conditions, is, or should be, abnormal and temporary in its character. I propose therefore to introduce this year a new tax which, for the time being, will be levied concurrently with the Excess Profits Duty, but which, either in the form in which I propose it or in an amended form, may in the future prove a substitute for it. The character of the new tax, a permanent tax, has been the subject of most anxious consideration by the Government and myself and, as I have previously mentioned in the House, last year I sent out a mission to Canada and the United States to investigate and to study the schemes of Profits Taxation in force in those countries, and to see whether we could derive any lessons of use to us from their practice and experience. The results of the inquiry and of independent investigation in this country have not served to remove the difficulties which presented themselves on our first consideration of the proposal for a taxation of profits in excess of a certain return upon invested capital, and have not enabled us to see our way to adjust such a tax to existing business conditions and customs in this country. We, therefore, abandoned the idea of creating a tax on profits in excess of a fixed standard and we propose to have recourse to a different measure. I may describe our proposal as a Corporation Tax levied at the rate of 1s. in the £ on the profits and income of concerns with limited liability, engaged in trade or similar transactions. This tax will run concurrently with Excess Profits Duty until that Duty is repealed. Where a concern is liable to both taxes, any Excess Profits Duty payable will be treated as a working expense in arriving at the

profits for the purpose of the new tax. Both Excess Profits Duty and Corporation Tax will be deducted before the assessment of profits for Income Tax, and to prevent the new tax constituting too severe a burden on the ordinary shareholder of existing concerns in which there are large issues of debenture and preference shares, where a considerable proportion of the profit has to be allocated to the payment of interest and fixed dividends thereon, we propose that in no case shall the duty exceed 2s. in the £ on the profits which remain after the payment of such interest and dividends on existing issues of debentures and preference shares. I would remind the Committee that under the provisions of the Excess Profits Duty prosperous concerns with a large pre-War profit standard may escape liability for the tax because their present profits though high, are not in excess of their standard, and, at any rate, they pay tax on what all of us think an unduly low scale. Incidentally, the new tax will do something to correct this anomaly. But I justify it on much broader grounds. Companies incorporated with a limited liability enjoy privileges and conveniences by virtue of the law for which they may well be asked to pay some acknowledgement. But more than that, partners in a private partnership pay Super-tax not merely on the profits which they divide, but also on the undivided profits which they place to reserve. No such charge falls upon the undivided profits of limited liability companies. The Corporations Tax is justified by this distinction of the existing law in favour of such corporations, and it may be regarded as a composition in lieu of the liability to Super-tax. How soon it may be possible to discontinue the Excess Profits Duty and to rely upon this new tax alone must depend on many circumstances, upon the duration of the abnormal conditions and abnormal prices and profits which we now witness, but, most of all, on the results of the inquiry which the Select Committee on War Wealth is now conducting upstairs. I estimate, on the basis of existing prices and rate of profits and assuming the continued development of industry, the yield of the new tax by itself should in a full year amount to £50,000,000 and, while levied as an addition to Excess Profits Duty at the rate of 60 per cent., will in a full year produce £35,000,000. The largest part of the tax levied and accruing this year will not reach the Exchequer till next year, and for this reason I do not anticipate that the sum obtained in the current year will be more than £3,000,000.[8]

It is clear that the proposal for a permanent, progressive excess profits tax with an invested capital standard has been definitely discarded for the present at least. The new corporate profits tax appears to have been the fruit of the researches of Mr. Chamberlain's mission to America. Its principle is quite novel in England and what development lies ahead of it cannot be fore-

[8] Speech on Making the Financial Statement, Monday, 19th April, 1920, pp. 14-16.

told. Since the budget speech the Government has abandoned the project for a levy on capital and Mr. Chamberlain's alternative proposal of a 60 per cent Excess Profits Duty for the year 1920 has been adopted.

The ostensible reason for discarding the proposal for a permanent excess profits tax is the reluctance on the part of both the business community and the Inland Revenue to attempt a general evaluation of business capital. This is, of course, a task whose difficulties may well give pause. However it is also true that the business leaders are opposed to a permanent excess profits tax on principle. It appears to them discriminatory and dangerous—discriminatory because the validity of the general principle of special business taxation is not acknowledged in England and dangerous because the admission of the principle would open the door to a permanent policy of social control of profits. The socialists are not the least interested in the Excess Profits Duty at present but the most acute of the business men profess to see in it a potent socialistic weapon. A Labor Government within a reasonably short time is not beyond the range of possibility and the business interests are very eager that such a government may not find in good working order a special profits tax established on a permanent basis. They are willing to make temporary sacrifices in the way of submitting to uneven taxation as between individual businesses provided only they can maintain the present status of the Duty as a temporary measure.

The situation may be briefly summarized as follows: In the summer of 1919 the general expectation in England was that the Excess Profits Duty would disappear with the expiration of the financial year. This view was not shared, however, by those who were fully informed regarding the status of government finances. Such persons pointed out that the Duty could be repealed only in case some productive substitute could be found and, placing little faith in the proposal for a levy on capital, they directed their thought to the possibility of developing some new type of special profits tax which could be established in the place of the Excess Profits Duty. At the time of the writer's visit the proposal which appeared to hold most promise of being enacted into law was one providing for an excess profits tax very similar to the one now in force in this country, levied at progressive rates upon profits whose richness was determined by reference to a standard of invested capital. During the winter of 1919-20 the problem was

warmly debated, the discussion being characterized, first, by the development of bitter opposition to any new special profits tax which would bear the stamp of permanency and, second, by the growth of a surprisingly strong sentiment in favor of some modified form of capital levy. When the budget was finally established it included neither proposal. Instead of a capital levy or a new permanent excess profits tax the British have chosen to continue the old Excess Profits Duty at the increased rate of 60 per cent and to establish a new flat five per cent tax on the profits of corporations. The British policy with respect to the future is not fixed but special profits taxation in some form will probably constitute a part of the financial plan for several years to come.

CONCLUSIONS

CONCLUSIONS

A comprehensive survey of the material presented in this report can be quickly made by reading the brief summaries which appear at the end of each of the four main divisions.[1] In conclusion, consequently, it remains only to point out the significance of the British experiences to us, as we face the problem of the future of the tax in America.

The scope of this report does not permit an analysis of the American financial situation, and without such an analysis it would be quite improper to venture a definite statement as to whether we should repeal the excess profits tax or continue it. However, this much can be said most emphatically. If we can afford to make the rates moderate and if we have the wit to follow the British precedents as set forth above, we can remove the ground for the most serious criticisms now being urged against our excess profits tax. The grounds for criticism which will remain may still be sufficient to render the tax unattractive as compared with available alternatives. If so, the tax should be abandoned. But, at a time when our fiscal necessities are so great, the possibility of recasting the tax in the light of British experience must be taken into account in arriving at a wise decision. Certainly nothing is revealed which gives cause for great alarm or forms ground for a demand for the hasty repeal of our tax. On the contrary, the British have shown us that it is possible to introduce sufficient flexibility into the administration of a profits tax to enable it to conform fairly satisfactorily to the complex conditions of modern business. They have also shown us how to eliminate the friction which arises when important questions of judgment are left entirely to bureaucratic officials. The solution they offer us involves a radical improvement in our administrative organization and procedure, but students of federal taxation are beginning to believe that such changes must come anyway, and come quickly if we are to save the federal income tax itself from disintegration. The solution offered also involves the establishment of a system of appeals based upon a principle entirely novel in our treasury organization, *viz.*, that of arbitration before juries of disinterested outsiders. This principle has always formed a part of the British income-tax procedure, and has thoroughly justified itself in the

[1] *Supra*, pp. 23, 137, 157, 165.

elaborated form which was established for purposes of the Excess Profits Duty. We should lose no time in appropriating this device whether we continue or abandon the profits tax.

If we are to continue profits taxation, the general standard prescribed in our present law for determining the richness of the profits should be retained. The best British opinion supports the view that a percentage of invested capital is a more satisfactory test than the earnings of some previous period, in a tax of this character, and they have shown how that percentage can be cleverly varied to meet the peculiar conditions in each line of business.

With respect to the British decision this year to continue their profits tax without eliminating their "profits standard," two points should be made clear. The first is that their tax is not now and never has been entirely dependent on the profits standard. In fact, the testing of profits by the standard of earnings in the pre-war period really operates as a relief provision, reducing the tax which would be payable if the percentage standard only was utilized. With the passage of time the percentage standard, based on invested capital, has been assuming a larger and larger rôle in the procedure. The second point to be borne in mind is that in the deliberations this year regarding the advisability of establishing a permanent profits tax, the issue really turned on a quite different consideration from that of the relative merits of the invested capital standard as compared with the present alternative standard. The writer is convinced from his conversations with the British business men that it was not so much the invested capital standard which aroused their opposition as it was the fear of permanency in a profits tax. So long as the present tax with its pre-war standard remains, there exists a *prima facie* case for its repeal in the more or less immediate future. But, with a Labor Government threatening in the offing, the business men prefer not to face the future with a profits tax firmly established on a basis which can be made permanent by a mere continuance of established policy and practice. Thus much larger issues are involved in the matter than appear on the surface. In this country, with its different social and political conditions, this aspect of the problem has received almost no consideration, but the fact remains that in the principle of special profits taxation there may exist a practicable method of arriving at a solution of the problem of monopoly profits against which the American public has stead-

fastly set its face, and of seizing some of the promised advantages of socialized industry without incurring the risks and disadvantages of socialism.

Several very serious defects in our own national financial situation are brought into bold relief by a study of the British Excess Profits Duty. The first is that we have not grasped the fundamental importance of adequate preliminary consideration of tax measures. The British seem to be able to choose a course and hold to it consistently. It was only about one year after the war began that they established their Excess Profits Duty, but even at that early date it was established in a form which they have found unnecessary to change in any important particular. Today they have essentially the same scope of application, the same definition of profits, the same standard of excessiveness, the same rules for calculating invested capital, and the same general procedure as they had at the beginning. We began with a law of broad application and then swung to the opposite extreme of very narrow application. We began with an invested capital standard, the next year we substituted an alternative standard, and the third year reverted to the first type once more. We have tinkered with the definition of profits and made important changes in procedure. The British contented themselves with mere changes in rates to meet varying fiscal needs. Our constant changes have had many unfortunate effects, perhaps the most serious being the tendency to unstabilize business and to complicate the administration. It does not reflect credit upon us that we, in 1917, could not draft an act suited to our situation, whereas Great Britain was able in 1915 to pass a law which has required practically no revision since.

A second weakness is our comparatively narrow conception of the accounting period. If we are wise, we will copy the British practice with respect to this. The problem is as significant for income taxation as for profits taxation and is one which will be particularly important in the period of falling prices upon which, apparently, we are now entering. In effect, we decline to regard business as a continuing operation. We separate the history of a concern into arbitrary periods and carefully insulate each period from every other period. This procedure is not in accord with the economic facts. We should frankly recognize net loss whenever it occurs and make whatever readjustments are necessary to equalize the total burden as between taxpayers, not merely on the

basis of each year, but for the operations on a long-time basis. Such a recognition of losses would eliminate much of the injustice of the present situation.

A final important shortcoming, which becomes apparent from a study of the British situation, is our under-appraisal of the administrative factor. We are on the whole not slow to grasp the significance of underlying principles, or to appreciate the theoretical niceties and refinements of these complicated tax measures, but we appear to be willing to ignore the existence of many of the administrative problems upon whose solution the success of these measures depends. We should cultivate the British reluctance to pass a tax measure until assured of the adequacy of the Treasury staff to undertake the task. We should see to it that our administration is made adequate to the demands even now laid upon it. Administration, after all, holds the final veto on any tax proposal and a failure to recognize this fact is almost certain to result disastrously. The plain truth of the matter is that unless we abandon our amateurish and naïve attitude and face this problem of administration frankly, we shall have to content ourselves with a tax system which will attain simplicity at a very high cost in terms of equity. We cannot have just taxation under the complicated conditions of modern economic life unless we prove ourselves equal to the task of establishing a skilled and permanent civil service.

APPENDICES

APPENDICES

APPENDIX A

TEXT OF STATUTES RELATING TO EXCESS PROFITS DUTY

I. Munitions of War Act, 1915

(5 & 6 George 5, Ch. 54, 2nd July 1915)

* * * * * * * * *

Part II

4. *Controlled establishments.*—If the Minister of Munitions considers it expedient for the purpose of the successful prosecution of the war that any establishment in which munitions work is carried on should be subject to the special provisions as to limitation of employers' profits and control of persons employed and other matters contained in this section, he may make an order declaring that establishment to be a controlled establishment, and on such order being made the following provisions shall apply thereto: —

(1) Any excess of the net profits of the controlled establishment over the amount divisible under this Act, as ascertained in accordance with the provisions of this Act, shall be paid into the Exchequer.

* * * * * * * * *

Where in any establishment munitions work is carried on in some part of the establishment but not in other parts, the Minister of Munitions may, if he considers that it is practicable to do so, treat any part of the establishment in which munitions work is not carried on as a separate establishment, and the provisions of this Act shall take effect accordingly.[1]

5. *Supplementary provisions as to the limitation of the profits of a controlled establishment.*—(1) The net profits of a controlled establishment shall be ascertained in accordance with the provisions of this section and rules made thereunder and the amount of profits divisible under this Act shall be taken to be an amount exceeding by one-fifth the standard amount of profits.

(2) The standard amount of profits for any period shall be taken to be the average of the amount of the net profits for the two financial years of the establishment completed next before the outbreak of the war or a proportionate part thereof.

(3) If in any case it appears or is represented to the Minister of Munitions that the net profits or losses of all or any other establishments belonging to the same owner should be brought into account,

[1] This section was repealed by the Finance Act of 1917, sec. 24. *Cf. infra*, p. 202.

or that the average under this section affords or may afford an unfair standard of comparison or affords no standard of comparison,[2] *the Minister may, if he thinks just, allow*[3] *those net profits or losses to be brought into account, or substitute for the average such an amount as the standard amount of profits as may be agreed upon with the owner of the establishment.*

The Minister of Munitions may, if he thinks fit, and shall, if the owner of the establishment so requires, refer the matter to be determined by a referee or board of referees appointed or designated by him for the purpose, and the decision of the referee or board shall be conclusive on the matter for all purposes.[4]

(4) The Minister of Munitions may make rules for carrying the provisions of this section into effect, and these rules shall provide for due consideration being given in carrying out the provisions of this section as respects any establishment to any special circumstances such as increase of output, provision of new machinery or plant, alteration of capital or other matters which require special consideration in relation to the particular establishment.

* * * * * * * * *

II. Finance (No. 2) Act 1915

(5 & 6 George 5., ch. 89, 23rd September, 1915)

Part II

* * * * * * * * *

35. *Computation of profits and gains in relation to excess profits duty.*—(1) Where any person has paid excess profits duty under this Act the amount so paid shall be allowed as a deduction for the purpose of income tax in computing the profits and gains of the year which included the end of the accounting period in respect of which the excess profits duty has been paid; but where any person has received repayment of any amount previously paid by him by way of excess profits duty, the amount repaid shall be treated as profit for the year in which the repayment is received.[1]

The payment of excess profits duty shall not be deemed to be a specific cause for the purposes of section one hundred and thirty-four of the Income Tax Act, 1842.

(2) Where in any income tax year the profits or gains from which a deduction may be made under this section come into computation, but owing to the time at which the amount of excess profits duty became ascertained it was impracticable to give effect to the deduction

[2] The following clause was inserted at this point in 1916: "or that no such average exists." Munitions of War (Amendment) Act, 1916, sec. 19 (5 & 6 George 5, ch. 99).

[3] The words "or require" were inserted in 1916. *Ibid.*

[4] Modified by sec. 24 (3) of Finance Act of 1917. *Cf. infra,* p. 202.

[1] *Cf.* Finance Act, 1916, sec. 48 (2), *infra,* p. 196; sec. 53, *infra,* p. 197; Finance Act, 1918, sec. 31, *infra,* p. 207 *et seq.*

when assessing income tax, the amount by which the income tax would have been reduced if effect had been given to the deduction shall be deducted from the amount payable for excess profits duty or, if there is no excess profits duty, shall be repaid to the taxpayer.

PART III

EXCESS PROFITS DUTY

38. *Charge of excess profits duty.*—(1) There shall be charged, levied, and paid on the amount by which the profits arising from any trade or business to which this Part of this Act applies, in any accounting period which ended after the fourth day of August nineteen hundred and fourteen, and before the first day of July nineteen hundred and fifteen exceeded, by more than two hundred pounds, the pre-war standard of profits as defined for the purposes of this Part of this Act, a duty (in this Act referred to as "excess profits duty") of an amount equal to fifty per cent[1] of that excess.[2]

(2) For the purposes of this Part of this Act the accounting period shall be taken to be the period for which the accounts of the trade or business have been made up, and where the accounts of any trade or business have not been made up for any definite period, or for the period for which they have been usually made up, or a year or more has elapsed without accounts being made up, shall be taken to be such period not being less than six months or more than a year ending on such a date as the Commissioners of Inland Revenue may determine.

Where any accounting period is a period of less than a year this section shall have effect as if there were substituted for two hundred pounds a proportionately reduced amount.[3]

(3) Where a person proves that in any accounting period, which ended after the fourth day of August nineteen hundred and fourteen, his profits have not reached the point which involves liability to excess profits duty, or that he has sustained a loss in his trade or business, he shall be entitled to repayment of such amount paid by him as excess profits duty in respect of any previous accounting period, or to set off against any excess profits duty payable by him in respect of any succeeding accounting period, such an amount as will make the total amount of excess profits duty paid by him during the whole period accord with his profits or losses during that period.[4]

39. *Trades and businesses to which excess profits duty applies.*—The trades and businesses to which this Part of this Act applies are all trades or businesses (whether continuously carried on or not) of

[1] *Cf.* Finance Act, 1917, sec. 26 (4), *infra*, p. 203.

[2] *Cf.* Finance Act, 1916, sec. 45, *infra*, p. 193; Finance Act, 1917, sec. 20 (1), *infra*, p. 199; Finance Act, 1918, sec. 34, *infra*, p. 208; Finance Act, 1919, sec. 32, *infra*, p. 210; Finance Act, 1920, sec. 40, *infra*, p. 212.

[3] Finance Act, 1916, sec. 51, *infra*, p. 197.

[4] Finance Act, 1916, sec. 45 (2), *infra*, p. 193; Finance Act, 1917, secs. 22, 26 (8), *infra*, pp. 200, 204; Finance Act, 1918, sec. 35 (2) (b), *infra*, p. 208; Finance Act 1919, sec. 32 (2), *infra*, p. 210.

any description carried on in the United Kingdom, or owned or carried on in any other place by persons ordinarily resident in the United Kingdom, excepting—

(*a*) husbandry in the United Kingdom; and

(*b*) offices or employments; and

(*c*) any profession the profits of which are dependent mainly on the personal qualifications of the person by whom the profession is carried on and in which no capital expenditure is required, or only capital expenditure of a comparatively small amount,

but including the business of any person taking commissions in respect of any transactions or services rendered, and of any agent of any description (not being a commercial traveller, or an agent whose remuneration consists wholly of a fixed and definite sum not depending on the amount of business done or any other contingency).

40. *Determination of profits and pre-war standard.*—(1) The profits arising from any trade or business to which this Part of this Act applies shall be separately determined for the purpose of this Part of this Act, but shall be so determined on the same principles as the profits and gains of the trade or business are or would be determined for the purpose of income tax, subject to the modifications set out in the First Part of the Fourth Schedule to this Act and to any other provisions of this Act.

(2) The pre-war standard of profits for the purposes of this Part of this Act shall, subject to the provisions of this Act, be taken to be the amount of the profits arising from the trade or business on the average of any two of the three last pre-war trade years, to be selected by the taxpayer (in this Part of this Act referred to as the profits standard): Provided that if it is shown to the satisfaction of the Commissioners of Inland Revenue that that amount was less than the percentage standard as hereinafter defined, the pre-war standard of profits shall be taken to be the percentage standard.

The percentage standard shall, for the purposes of this Part of this Act, be taken to be an amount equal to the statutory percentage on the capital of the trade or business as existing at the end of the last pre-war trade year, subject, however, to the provisions of this Act as to any alteration in the manner of calculating the percentage standard in special cases.

The statutory percentage shall be six per cent in the case of a trade or business carried on or owned by a company or other body corporate, and seven per cent in the case of any other trade or business, subject, however, to the provisions of this Act as to the increase in that percentage in certain cases.[5]

The provisions contained in the Second Part of the Fourth Schedule to this Act shall have effect with respect to the computation of the profits of a pre-war trade year, and the provisions contained in the Third Part of the Fourth Schedule shall have effect with respect to the ascertainment of capital for the purposes of this Part of this Act.

[5] *Cf.* Finance Act, 1917, sec. 26 (2), *infra*, p. 203.

"The last pre-war trade year" means the year ending at the end of the last accounting period before the fifth day of August, nineteen hundred and fourteen, and "the three last pre-war trade years" means the three years ending at the three corresponding times.

(3) Where it appears to the Commissioners of Inland Revenue, on the application of a taxpayer in any particular case, that any provisions of the Fourth Schedule to this Act should be modified in his case, owing to a change in the constitution of a partnership, or to the postponement or suspension, as a consequence of the present war, of renewals or repairs, or to exceptional depreciation or obsolescence of assets employed in the trade or business due to the present war, or to the necessity in connection with the present war of providing plant which will not be wanted for the purposes of the trade or business after the termination of the war, or to any other special circumstances specified in regulations made by the Treasury, those Commissioners shall have power to allow such modifications of any of the provisions of that schedule as they think necessary in order to meet the particular case.[6]

If the Commissioners refuse, on any such application, to allow any modification or if the applicant is dissatisfied with any modification allowed, the applicant may require the Commissioners to refer the case to a Board of Referees, to be appointed for the purposes of this Part of this Act by the Treasury, and that Board shall consider any case so referred and have the same powers with respect thereto as the Commissioners have.

41. *Adjustments for increased or decreased capital.*—(1) Where capital has been increased during the accounting period, a deduction shall be made from the profits of the accounting period at the statutory percentage per annum on the amount by which the capital has been increased, for the whole accounting period if the increased capital has been employed for the whole accounting period, and if the increased capital has been employed for part only of the accounting period, for that part of the accounting period.[7]

(2) Where capital has been decreased during the accounting period, an addition shall be made to the profits of the accounting period at the statutory percentage per annum on the amount by which the capital has been so decreased for the whole accounting period, if the capital has been decreased for the whole accounting period, and if the capital has been decreased for part only of the accounting period, for that part of the accounting period.[8]

(3) For the purposes of this section capital shall be taken to be increased or decreased, as the case may be, where the pre-war standard of profits is a profits standard, if the capital employed in the trade or business exceeds or is less than the average amount of capital employed during the pre-war trade years or year by reference to

[6] *Cf.* Finance Act, 1916, secs. 47 (d), 55, *infra*, p. 195.

[7] Finance Act, 1916, sec. 47 (c), *infra*, p. 195; Finance Act, 1917, sec. 26 (1), *infra*, p. 203.

[8] *Cf.* Finance Act, 1917, sec. 26 (2), *infra*, p. 203.

which the profits standard has been arrived at, and, where the pre-war standard of profits is a percentage standard, if the capital exceeds or is less than the capital on which the percentage standard has been calculated.

(4) Where any capital employed in a trade or business which was so employed for the first time within three years[9] before the first day of August nineteen hundred and fourteen has only commenced to be remunerative or fully remunerative in the accounting period, an amount equal to the statutory percentage, or where interest has been earned on the capital, but at a rate less than the statutory percentage, an amount which would bring the interest earned on the capital up to the statutory percentage, as the case may be, shall be added to the profits standard.

42. *Reference to the Board of Referees of questions as to increase of percentages, &c.*—Where an application is made to the Commissioners of Inland Revenue—

(1) For an increase of the statutory percentage as respects any class of trade or business, or for a calculation of the percentage standard in the case of any class of trade or business in which the amount of capital actually employed in the trade or business is, owing to the nature of the trade or business, small compared with the capital necessarily at stake for that trade or business, by reference to some factor other than the capital of the trade or business or to some additional factor; or

(2) For an alteration of the pre-war standard of profits as respects capital employed for the purpose of the manufacture of war materials or for munitions work and which could not be expected to be remunerative or wholly remunerative, except in time of war, in a business which has been wholly or mainly carried on for those purposes;

the Commissioners, unless they are of opinion that the application is frivolous or vexatious or relates to matters already decided by a Board of Referees, shall refer the case to a Board of Referees to be appointed for the purpose of this Part of this Act by the Treasury, and that Board shall deal with the case, and may, by order, if they think fit, increase the statutory percentage or alter the percentage standard for the class of trade or business the subject of the order, or alter the pre-war standard of profits, as the case requires.[10]

On any such order being made, this Part of this Act shall have effect as from the date named in the order as if the percentage or standard named in the order was substituted for the percentage or standard fixed by this Act; and where, in pursuance of any such order, the statutory percentage is increased or the percentage standard is altered as respects any class of trade or business, the statutory percentage shall be increased and the percentage standard shall be altered re-

[9] *Cf.* Finance Act, 1917, sec. 26 (7), *infra*, p. 204.

[10] *Cf.* Finance Act, 1917, sec. 25, *infra*, p. 202.

spectively for all purposes of this Part of this Act as respects any trade or business belonging to that class.

This section shall apply to any subdivision of a trade or business based either on any special feature of the trade or business or on locality as it applies to a class of trade or business, in any case where the Board of Referees are of opinion that the subdivision can properly be dealt with separately.

43. *Excess mineral rights duty.*—(1) Where the amount payable to any person as rent in respect of the right to work minerals or of any mineral wayleaves (in cases where the right to work the minerals and the mineral wayleaves are not part of the assets of any trade or business)[11] varies according to the price of the minerals, and the amount so payable in respect of any working year ending on any date after the commencement of the present war (in this section referred to as the accounting year) exceeds the pre-war standard of rent, there shall be paid as an addition to any mineral rights duty payable or paid, either directly or by deduction, by reference to the amount of the rent paid in that working year, by that person (in this section referred to as the person liable) an amount equal to fifty per cent of that excess.[12]

(2) The pre-war standard of rent shall, for the purposes of this section, be taken to be the average of any two of the three last pre-war rent values, to be selected by the taxpayer, and in cases where the minerals have not been worked or the wayleaves have not been let throughout the three years by reference to which the three last pre-war rent values are to be calculated, or for any other reason there are no proper data for ascertaining the pre-war rent values, shall be taken to be such amount as may be fixed by the Commissioners of Inland Revenue, having regard to the data afforded by the working and price of minerals in like circumstances, subject nevertheless to the same appeal as that to which the assessment of duty by the Commissioners is subject under Part I. of the Finance (1909-10) Act, 1910.

The pre-war rent value shall, as respects each of the three years immediately preceding the first accounting year, be taken to be the sum to which the rent for the accounting year would amount if the rent, so far as variable according to price, were based on the average prices governing the payment of the rent in that year.

(3) Any amount payable in any accounting year by the lessee of minerals or wayleaves to a superior lessor as rent in respect of the minerals or wayleaves shall be treated as a deduction from the amount payable to the lessee as rent for that year, and in computing the pre-war rent values a corresponding deduction shall be made on account of any such rent.

(4) Any increment value duty payable annually under section twenty-two of the Finance (1909-10) Act, 1910, shall, when paid,

11 *Cf.* Finance Act, 1916, sec. 46 (2), *infra*, p. 194.

12 Finance Act, 1916, sec. 46, *infra*, p. 194; Finance Act, 1917, sec. 21, *infra*, p. 200; Finance Act, 1919, sec. 33, *infra*, p. 210; Finance Act, 1920, sec. 41, *infra*, p. 212.

be treated as a deduction from the rent payable to any person in the year in which the duty is paid, and a corresponding deduction shall be made in computing the pre-war standard with which the rent for that year is to be compared.

(5) Any duty payable under this section shall be assessed by the Commissioners of Inland Revenue on the person liable, subject to the same appeal as that to which an assessment of duty by the Commissioners under Part I of the Finance (1909-10) Act, 1910, is subject, and shall be recoverable as a debt due to His Majesty from that person.

(6) Subsection (3) of section twenty of the Finance (1909-10) Act, 1910, shall extend so as to authorise particulars to be required of any lease of minerals or wayleaves and as to the sums paid or payable thereunder, and of such other particulars as to the minerals or wayleaves as the Commissioners may require for the purpose of this section.

(7) Expressions to which a special meaning is attached by Part I of the Finance (1909-10) Act, 1910, shall have the same meaning in this section.

44. *Returns for purpose of Part III and penalty for fictitious transactions.*—(1) The Commissioners of Inland Revenue may, for the purposes of this Part of this Act, require any person engaged in any trade or business to which this Part of this Act applies, or who was so engaged during any accounting period or pre-war trade year, to furnish them within two months after the requirement for the return is made, with returns of the profits of the trade or business during the accounting period or pre-war trade years and such other particulars in connection with the trade or business as the Commissioners may require.[13]

(2) It shall be the duty of every person chargeable to excess profits duty under this Part of this Act to give notice that he is chargeable to the Commissioners of Inland Revenue before the thirty-first day of January nineteen hundred and sixteen, and it shall be the duty of the liquidator of every company which is being wound up at the time of the commencement of this Act or is wound up after the commencement of this Act, and is chargeable to excess profits duty, to give notice of the fact to the Commissioners of Inland Revenue.

If any person fails to furnish a proper return in accordance with this section or to comply with any requirement of the Commissioners under this section, or to give any notice required by this section, he shall be liable on summary conviction to a fine not exceeding one hundred pounds and to a further fine not exceeding ten pounds a day for every day during which the offence continues after conviction therefor.

(3) A person shall not, for the purpose of avoiding the payment of excess profits duty, enter into any fictitious or artificial transaction or carry out any fictitious or artificial operation, and, if he has entered

[13] *Cf.* Finance Act, 1916, sec. 47 (c), *infra*, p. 195.

into any such transaction or carried out any such operation before the commencement of this Act, shall inform the Commissioners of Inland Revenue of the nature of the transaction or operation.

If any person acts in contravention of, or fails to comply with, this provision, he shall be liable on summary conviction to a fine not exceeding one hundred pounds.

45. *Supplemental provisions as to excess profits duty.*—(1) The excess profits duty shall be assessed by the Commissioners of Inland Revenue, and shall be payable at any time, not being less than two months, after it is assessed.

The Commissioners may, in any case where they think fit, allow the duty to be paid in instalments of such amount payable at such times as the Commissioners direct.

(2) The duty may be assessed on any person for the time being owning or carrying on the trade or business or acting as agent for that person in carrying on the trade or business, or, where a trade or business has ceased, on the person who owned or carried on the trade or business or acted as agent in carrying on the trade or business immediately before the time at which the trade or business ceased, and where there has been a change of ownership of the trade or business, the Commissioners of Inland Revenue may, if they think fit, take the accounting period as the period ending on the date on which the ownership has so changed and assess the duty on the person who owned or carried on the trade or business or acted as agent for the person carrying on the trade or business at that date.

(3) The amount of duty payable shall be recoverable as a debt due to His Majesty from the person on whom it is assessed.

Any such amount shall if it is less than fifty pounds be recoverable also summarily as a civil debt.

(4) Where a company is wound up after the commencement of this Act, and before the first day of July, nineteen hundred and sixteen, and the company would be chargeable with excess profits duty if the provisions of this Act were continued and extended to accounting periods ending before the first day of July, nineteen hundred and sixteen, it shall be the duty of the liquidator of the company to give notice to the Commissioners of Inland Revenue, and to set aside such sum out of the assets of the company as appears to the Commissioners of Inland Revenue to be sufficient to provide for any such excess profits duty as may become chargeable.

(5) Any person who is dissatisfied with the amount of any assessment made upon him by the Commissioners of Inland Revenue under this Part of this Act may (except in cases where a special right of appeal is given under this Part of this Act) appeal to the general Commissioners for the division in which he is assessed, or to the special Commissioners, and those Commissioners shall have power on any appeal, if they think fit, to summon witnesses and examine them upon oath.[14]

[14] Finance Act, 1916, sec. 47 (b), *infra*, p. 195; Finance Act, 1917, sec. 22 (2), *infra*, p. 201; Finance Act, 1918, sec. 35 (3), *infra*, p. 209.

The power under sections twenty-one and twenty-two of the Income Tax Act, 1853, to require an appeal in Ireland to the special Commissioners to be reheard by the county court judge, or chairman of quarter sessions, or recorder, shall apply to an appeal in Ireland under this provision.

Section fifty-nine of the Taxes Management Act, 1880 (which relates to the statement of a case on a point of law), shall apply with the necessary modifications in the case of any appeal to the general or special Commissioners under this section, or of the rehearing of any such appeal in Ireland, and in the case of a reference to the Board of Referees under this Part of this Act, as it applies in the case of appeals to the general or special Commissioners under the Income Tax Acts.

(6) The duty assessed by the Commissioners of Inland Revenue shall be payable notwithstanding any appeal under this section except in cases where the Commissioners of Inland Revenue direct to the contrary, but the Commissioners shall make such repayments, if any, as are necessary to give effect to any decision on appeal as soon as possible after such decision has been given.

(7) The Commissioners of Inland Revenue may make regulations with respect to the assessment and collection of the excess profits duty and the hearing of appeals under this section, and may by those regulations apply and adapt any enactments relating to the assessment and collection of income tax, or the hearing of appeals as to income tax by the general or special Commissioners, which do not otherwise apply.

(8) All Commissioners and other persons employed for any purpose in connection with the assessment or collection of excess profits duty shall be subject to the same obligations as to secrecy with respect to excess profits duty as those persons are subject to with respect to income tax, and any oath taken by any such person as to secrecy with respect to income tax shall be deemed to extend also to secrecy with respect to excess profits duty.[15]

FOURTH SCHEDULE

Part I.—Computation of Profits

1. The profits shall be taken to be the actual profits arising in the accounting period; and the principle of computing profits by reference to any other year or an average of years shall not be followed.

2. The principle of the Income Tax Acts under which deductions are not allowed for interest on money borrowed for the purpose of the trade or business, or for rent, or royalties, or for other payments income tax on which is collected at the source (not being payments of dividends or payments for the distribution of profits), and under which profits or gains arising from lands, tenements, or hereditaments

[15] *Cf.* Finance Act, 1917, sec. 23 (3), *infra*, p. 201.

forming part of the assets of the trade or business are excluded shall not be followed.

3. Deductions for wear and tear or for any expenditure of a capital nature for renewals, or for the development of the trade or business or otherwise in respect of the trade or business, shall not be allowed except such as may be allowed under the Income Tax Acts, and if allowed shall be only of such amount as appears to the Commissioners of Inland Revenue to be reasonably and properly attributable to the year or accounting period.[1]

4. Deductions shall not be allowed on account of the liability to pay, or the payment of, income tax or excess profits duty, but a deduction shall be allowed (if not otherwise allowed by means of the adoption of the principle of the Income Tax Acts) for any sum which has been paid in respect of the profits on account of any excess profits duty or similar duty imposed in any country outside the United Kingdom.[2]

5. Any deduction allowed for the remuneration of directors, managers, and persons concerned in the management of the trade or business shall not, unless the Commissioners of Inland Revenue, owing to any special circumstances or to the fact that the remuneration of any managers or managing directors depends on the profits of the trade or business, otherwise direct, exceed the sums allowed for those purposes in the last pre-war trade year or a proportionate part thereof as the case requires, and no deduction shall be allowed in respect of any transaction or operation of any nature, where it appears, or to the extent to which it appears, that the transaction or operation has artificially reduced the amount to be taken as the amount of the profits of the trade or business for the purposes of this Act.[3]

6. Where any company, either in its own name or that of a nominee, owns the whole of the ordinary capital of any other company carrying on the same trade or business or so much of that capital as under the general law a single shareholder can legally own the provisions of Part III. of this Act as to excess profits duty and the pre-war standard of profits shall apply as if that other company were a branch of the first-named company and the profits of the two companies shall not be separately assessed.[4]

7. Where in the case of any trade or business—

(*a*) the percentage standard is adopted as the pre-war standard of profits; and

(*b*) the net result of the trade or business during the three last pre-war trade years has shown a loss; and

(*c*) any part of the profits has been applied in extinction of that loss;

[1] *Cf.* Finance Act, 1916, sec. 39, *infra*, p. 193.

[2] *Cf.* Finance Act, 1917, sec. 23 (2), *infra*, p. 201.

[3] *Cf.* Finance Act, 1916, sec. 49, *infra*, p. 196.

[4] *Cf.* Finance Act, 1916, sec. 47 (e), *infra*, p. 195 *et seq.*

then in estimating the profits a deduction shall be allowed equal to the amount of profits so applied.[5]

8. In estimating the profits no account shall be taken of income received from investments except in the case of life assurance businesses and businesses where the principal business consists of the making of investments. Where account is taken of any such income—

(*a*) any variation in the value of any of those investments which appears to the Commissioners of Inland Revenue not to be due to a variation in profits shall also be taken into account; and

(*b*) where the income has been derived from profits in respect of which any payment or repayment of excess profits duty has been made under this Act, such deduction or addition shall be made in computing the profits as will make proper allowance for that payment or repayment of duty.

9. In computing the total profits of a local authority from any trades or businesses carried on by that authority the total amount which is required to be raised by them, out of the rates or otherwise, for sinking fund purposes in connection with those trades or businesses shall be allowed as a deduction.

10. In the case of societies registered under the Industrial and Provident Societies Acts the excess profits duty shall be charged on the sum by which the profits per member for the accounting period (including any surplus arising from transactions with members) exceed the like profits per member in the pre-war trade year or average of years taken as the basis of computation for the purpose of the pre-war standard of profits, multiplied by the number of members in the accounting period.[6]

11. In the case of any contract extending beyond one accounting period from the date of its commencement to the completion thereof and only partially performed in any accounting period there shall (unless the Commissioners of Inland Revenue, owing to any special circumstances, otherwise direct) be attributed to each of the accounting periods in which such contract was partially performed, such proportion of the entire profits or loss or estimated profits or loss in respect of the complete performance of the contract as shall be properly attributable to such accounting periods respectively, having regard to the extent to which the contract was performed in such periods.

PART II.—PRE-WAR STANDARD

1. The profits of any pre-war trade year shall be computed on the same principles and subject to the same provisions as the profits of the accounting period are computed.

2. Where the accounting period for which the excess profits duty is to be assessed is less than a year, the amount of the pre-war standard of profits shall be proportionately reduced.

3. Where it is shown to the satisfaction of the Commissioners of

[5] *Cf.* Finance Act, 1916, sec. 50, *infra*, p. 197; Finance Act, 1918, sec. 35 (2), (b), *infra*, p. 208.

[6] *Cf.* Finance Act, 1917, sec. 26 (8), *infra*, p. 204.

Inland Revenue in the case of any trade or business that the three last pre-war trade years have been years of abnormal depression, any four of the last six pre-war trade years may be substituted for the purposes of the pre-war standard of profits for any two of the three last pre-war trade years.

The three last pre-war trade years shall not be considered as years of abnormal depression unless the average profits of those years have been at least twenty-five per cent lower than the average profits of the preceding three years.

4. Where owing to the recent commencement of a trade or business there have not been three pre-war trade years, but there have been two pre-war trade years, the pre-war standard of profits shall be taken to be the amount of the profits arising from the trade or business on the average of those two years or, at the option of the taxpayer, the profits arising from the trade or business during the last of those two years, and where there have not been two pre-war trade years, but there has been one pre-war trade year, the pre-war standard of profits shall be taken to be the profits arising from the trade or business during that year; and where there has not been one pre-war trade year, the pre-war standard of profits[7] shall be taken to be the statutory percentage on the average amount of capital employed in the trade or business during the accounting period.

Where the trade or business is an agency or business of a nature involving capital of a comparatively small amount, the pre-war standard of profits shall be computed by reference to the profits arising from any trade, business, office, employment or profession of any sort, whether liable to excess profits duty or not, carried on by the agent or other person before his new trade or business commenced as if it was the same trade or business; but only to the extent to which the income from the former trade, business, office, employment or profession has been diminished.

5. Where since the commencement of the three last pre-war trade years a trade or business has changed ownership, the provisions of this Part of this Schedule shall apply as if a new trade or business had been commenced on the change of ownership, except in cases when the taxpayer makes an application that the provisions of Part III of this Act and this Schedule should apply as if the trade or business had not changed ownership, but in that case such modifications (if any) shall be made in the application of this Schedule as may be necessary to make the basis on which the profits standard is computed the same as that on which the profits of the accounting period are computed.

6. It is hereby declared that, where any business or trade is confined to the management of any particular assets, but power exists to substitute other assets for those particular assets or any of them,

[7] The statutory percentage as used in this paragraph was increased in 1917 from 6 and 7 per cent to 9 and 11 per cent, the higher rate in each case being allowed to partnerships and individuals. Finance Act, 1917, sec. 26 (1 & 2), *infra*, p. 203.

such a substitution shall not be deemed, for the purposes of Part III of this Act, to constitute a change of ownership of the business but, where any such substitution has been carried out by the sale of assets and the purchase of other assets, the capital of the trade or business shall be taken to be increased or decreased, as the case may be, only by the amount of the difference between the price of the assets purchased and the price obtained for the assets sold, and the capital representing the assets purchased shall be estimated on the same basis for all the purposes of Part III. of this Act.[8]

Part III.—Capital

1. The amount of the capital of a trade or business shall, so far as it does not consist of money, be taken to be—

(*a*) so far as it consists of assets acquired by purchase, the price at which those assets were acquired, subject to any proper deductions for wear and tear or replacement, or for unpaid purchase money; and

(*b*) so far as it consists of assets being debts due to the trade or business, the nominal amount of those debts subject to any reduction which has been allowed in respect to those debts for income tax purposes; and

(*c*) so far as it consists of any other assets which have not been acquired by purchase, the value of the assets at the time when they became assets of the trade or business, subject to any proper deductions for wear and tear or replacement.

Nothing in this Part of this Schedule shall prevent accumulated profits employed in the business being treated as capital.[9]

2. Any capital the income on which is not taken into account for the purposes of Part I of this Schedule, and any borrowed money or debts, shall be deducted in computing the amount of capital for the purposes of Part III of this Act.

3. Where any asset has been paid for otherwise than in cash, the cost price of that asset shall be taken to be the value of the consideration at the time the asset was acquired, but where a trade or business has been converted into a company and the shares in the company are wholly or mainly held by the person who was owner of the trade or business, no value shall be attached to those shares so far as they are represented by goodwill or otherwise than by material assets of the company unless the Commissioners of Inland Revenue in special circumstances otherwise direct. Patents and secret processes shall be deemed to be material assets.

[8] *Cf.* Finance Act, 1916, sec. 47 (e), *infra*, p. 195.

[9] *Cf.* Finance Act, 1916, sec. 52, *infra*, p. 197.

III. Finance Act, 1916
(6 & 7 George 5., ch. 24, 19th July 1916)
Part II.—Income Tax

* * * * * * * * *

39. *Repayment of income tax on sums deducted from profits under Munitions of War Act, 1915. 5 & 6 Geo. 5. c. 54.*—(1) Where in calculating for the purposes of Part II of the Munitions of War Act, 1915, the profits of a controlled establishment a deduction has been allowed under that Part of that Act or rules made thereunder in respect of exceptional depreciation or obsolescence of buildings, plant, or machinery, and the sums so deducted have not been deducted or allowed in computing the amount upon which income tax has been paid in respect of those profits, there shall be allowed a repayment of income tax equal to the amount of the income tax at the rate at which that tax has been paid on the amount of the sums so deducted:

Provided that the repayment of income tax under this section—

(*a*) shall be made in respect of the income tax year which includes the end of the period of assessment in respect of which the said deductions have been allowed under the Munitions of War Act, 1915; and

(*b*) shall be deemed to have effected a reduction of the income tax assessment by the amount upon which income tax has been so repaid.

(2) Any application for relief under this section shall be made to the Commissioners by whom the income tax assessment has been made, and those Commissioners upon proof of the facts to their satisfaction shall certify to the Commissioners of Inland Revenue the sum repayable, and the Commissioners of Inland Revenue shall cause repayment to be made accordingly.[1]

* * * * * * * * *

Part III.—Excess Profits Duty

45. *Continuance and increase of rate of excess profits duty.*—(1) The Finance (No. 2) Act, 1915 (in this Part of this Act referred to as the principal Act), shall, so far as it relates to excess profits duty, apply, unless Parliament otherwise determines, to any accounting period ending on or after the first day of July nineteen hundred and fifteen and before the first day of August nineteen hundred and seventeen, as it applies to accounting periods ended after the fourth day of August nineteen hundred and fourteen and before the said first day of July.

(2) Section thirty-eight of the principal Act shall, as respects excess profits arising in any accounting period beginning after the expiration of a year from the commencement of the first accounting period, have effect as if sixty per cent of the excess were substituted as the rate of duty for fifty per cent of the excess.

[1] *Cf.* Finance Act, 1917, sec. 16 (1), *infra*, p. 198.

Where part of an accounting period is after and part before the date of the expiration of a year from the commencement of the first accounting period, the total excess profits and any deficiencies or losses arising in the accounting period shall be apportioned between the time up to and including, and the time after, that date in proportion to the length of those times respectively, and the rate attributable to the time after and the time before and including that date shall respectively be sixty and fifty per cent of the excess.

In the case of trades or businesses commencing after the fourth day of August nineteen hundred and fourteen, the rate of duty shall be sixty per cent of the excess in respect of any accounting period ending after the fourth day of August nineteen hundred and fifteen.

In calculating any repayment or set off under subsection (3) of section thirty-eight of the principal Act any amount to be repaid or set off on account of a deficiency or loss arising in any period in respect of which duty would be payable at the rate of fifty per cent of the excess, shall be calculated by reference to that rate of duty.

Any additional duty payable by virtue of this section in respect of a past accounting period may be assessed and recovered notwithstanding that duty has already been assessed in respect of that period.

(3) It shall be the duty of every person chargeable to excess profits duty under Part III of the principal Act, as extended by this Act, if he has not previously given notice of his liability to be charged with excess profits duty in respect of any accounting period, to give notice to the Commissioners of Inland Revenue before the expiration of two months after the termination of any accounting period in respect of which he is chargeable, or, if the accounting period terminated before the passing of this Act, within one month after the passing of this Act.

If any person fails to give the notice required by this provision he shall be liable on summary conviction to a fine not exceeding one hundred pounds, and to a further fine not exceeding ten pounds a day for every day during which the offence continues after conviction therefor.

46. *Increase of rate of excess mineral rights duty.*—(1) Section forty-three of the principal Act (which relates to excess mineral rights duty) shall have effect as if sixty per cent of the excess were substituted as the rate of duty for fifty per cent of the excess, in the case of minerals which have become subject to a mining lease after the fourth day of August nineteen hundred and fourteen for all accounting years, and in the case of other minerals for any accounting year ending after the completion of the first accounting year, and any additional duty may be recovered accordingly.

(2) It is hereby declared that the words in subsection (1) of section forty-three of the principal Act "assets of any trade or business" refer only to assets of the trade or business of the person receiving the rent for the right to work the minerals or for the mineral wayleaves.

47. *Computation of excess profits duty in case of sale of ships.*—

Where any ship has been sold since the fourth day of August nineteen hundred and fourteen, in such circumstances that the profits of the sale are not the profits of a trade or business, the following special provisions shall, if the Commissioners of Inland Revenue so require, be applied in the computation of the liability to excess profits duty in respect of the profits arising from the use of the ship:—

(*a*) The pre-war standard of profits of the purchaser as respects the ship shall, where the standard of the trade or business of the vendor is a profits standard, be calculated by reference to the profits arising from the use of the ship during the pre-war trade years, and shall be ascertained in accordance with the provisions of the principal Act, but calculated, where necessary, as if the use of the ship were a separate business; and where that standard is a percentage standard the pre-war standard of profits as respects the ship shall be the same as if the ship had not been sold, or, in the case of a ship which was used for the first time after the fourth day of August, nineteen hundred and fourteen, shall be calculated by reference to the capital represented by the ship at the date when it was first used; and the pre-war standard of profits of the trade or business of the vendor and of the purchaser shall respectively be reduced and increased as the case may require, with any adjustments which may be necessary to meet the case of borrowed money or unpaid purchase money or other similar matters:

(*b*) For the purpose of estimating separately the profits arising from the use of the ship, an apportionment shall, where necessary, be made of the total profits of the trade or business in which the ship has been used, regard being had to the earnings of the ship as compared with the earnings of the other assets employed in the trade or business:

Any appeal under subsection (5) of section forty-five of the principal Act, so far as it involves any question of an apportionment under this provision, shall be to the Special Commissioners:

(*c*) The power to require returns under subsection (1) of section forty-four of the principal Act shall include power for the Commissioners of Inland Revenue to require any vendor of the ship to give such information to them and to the purchaser as the Commissioners think necessary in order to enable the provisions of this section to be carried into effect.

(*d*) Nothing in subsection (3) of section forty of the principal Act or in paragraph 3 of Part I of the Fourth Schedule to the principal Act shall operate so as to enable the purchaser of the ship to obtain any greater relief than could have been obtained by the vendor if the ship had not been sold, other than relief in connection with expenditure by the purchaser on improvements or repairs:

(*e*) In the application of section forty-one of the principal Act

to any trade or business whose pre-war standard of profits has been determined or adjusted under this section any increase or decrease of capital attributable to the purchase or sale of the ship shall be disregarded, and where any such determination or adjustment has taken place both in respect of the sale of a ship and the purchase of another ship for the same trade or business, paragraph 6 of Part II of the Fourth Schedule to the principal Act shall not apply.

48. *Adjustment of excess profits duty and munitions Exchequer payments in case of controlled establishments.*—(1) The Commissioners of Inland Revenue may treat any sums actually paid in respect of munitions Exchequer payments, which appear to the Commissioners to be attributable to the same period and subject matter as that for which excess profits duty is to be paid, as a payment on account of excess profits duty, or, if the amount of the munitions Exchequer payments is larger than the amount payable as excess profits duty, as extinguishing the duty for the purposes of collection; and may arrange with the Minister of Munitions, if in any case excess profits duty is paid before the munitions Exchequer payment, for the deduction of excess profits duty payments from any sums to be collected in respect of munitions Exchequer payments which appear to the Commissioners to be attributable to the same period and subject matter as that for which the excess profits duty payments have been made, or, if the amount of the excess profits duty payments is greater than the amount to be collected on account of munitions Exchequer payments, for the extinction of the amount to be so collected.

For the purpose of determining the period to which any profits are to be attributed under this section, profits shall be deemed to accrue from day to day at a uniform rate.

(2) Any excess profits duty and any munitions Exchequer payments which are remitted under this section for the purpose of collection shall not be deemed to have been paid for the purposes of section thirty-five of the principal Act (which relates to computation of profits and gains in relation to excess profits duty) as extended by this Act.

(3) Deductions shall not be allowed on account of munitions Exchequer payments in computing profits for the purpose of excess profits duty.

49. *Provisions as to directors' fees.*—(1) Where the pre-war standard of profits is taken to be the percentage standard or is calculated by reference to the statutory percentage in the case of any trade or business owned or carried on by a company or other body corporate whose directors have a controlling interest, the Commissioners of Inland Revenue may, if they think fit, as respects any accounting period, including a past accounting period, for the purpose of the provisions relating to the statutory percentage and for the purpose of the determination and computation of profits under Part I of the Fourth Schedule to the principal Act, treat the company or body corporate as if it were a firm and not a company or body corporate and

the directors or any of them as if they were partners in the firm.

(2) If as respects any accounting period ending on or after the first day of July nineteen hundred and fifteen, the Commissioners of Inland Revenue refuse to allow a deduction in respect of any increase in the remuneration of directors of any trade or business, and the tax payer is required to pay excess profits duty in respect of the disallowed deduction, the taxpayer shall be entitled to recover from any such director the amount which the taxpayer has paid by way of excess profits duty in respect of the increase; but any amount so recovered shall, unless the Commissioners otherwise direct, be treated as excess profits duty paid by the director from whom it is recovered and not as excess profits duty paid by the taxpayer.

(3) In this section the expression "directors" includes any managers or persons concerned in the management of the trade or business who are remunerated out of the funds of the trade or business.

50. *Further provision as to profits applied in extinction of previous losses.*—Paragraph 7 of Part I of the Fourth Schedule of the principal Act (which allows deductions to be made in respect of profits applied in extinction of losses) shall apply to a case where the capital account of any trade or business shows a debit balance as it applies to a case where the percentage standard is adopted as the pre-war standard of profits.

51. *Provision as to accounting period.*—It is hereby declared that, for the purpose of sub-section (2) of section thirty-eight of the principal Act, any period for which the books of a trade or business have been actually made up for any interim or other purpose in such a manner that the profits for that period can be readily ascertained is (without prejudice to the powers of the Commissioners of Inland Revenue under that provision) to be taken as an accounting period, notwithstanding that under the articles of association of the company carrying on the trade or business or under any other regulations affecting the carrying on of the trade or business the accounts are also required to be made up for some other period and notwithstanding that such accounts are not issued.

52. *Provision as to accumulating profits.*—It is hereby declared that, for the purpose of excess profits duty, profits of any trade or business arising and accumulating during any accounting period are not, during that period, to be treated as accumulated profits within the meaning of Part III of the Fourth Schedule to the principal Act, or as capital employed in the trade or business.

53. *Application of section 35 of the Finance (No. 2) Act, 1915, to munitions Exchequer payments.*—Section thirty-five of the principal Act (which relates to the computation of profits and gains for the purpose of income tax in relation to excess profits duty) shall apply to sums actually paid in respect of munitions Exchequer payments as it applies to excess profits duty, except that the relief to the taxpayer under subsection (2) of that section shall in all cases be given by means of repayment and not by deduction.

54. *Deposit of sums for payment of excess profits duty.*—Any person may deposit with the Commissioners of Inland Revenue any sums for the purpose of satisfying any excess profits duty which may thereafter become payable by him; and sums so deposited shall be applied in payment of any such duty as and when it becomes payable.

In calculating the amount to be so applied in payment of duty interest shall be allowed at such rate as may for the time being be determined by the Treasury.

55. *Amendment of section 40 (3) of the principal Act.*—Subsection (3) of section forty of the principal Act (which provides amongst other things for the reference of certain matters for the decision of a board of referees) shall, where the application for such a reference is made in respect of a trade or business carried on in a controlled establishment within the meaning of Part II of the Munitions of War Act, 1915, and relates to an accounting period during any part of which the establishment has been so controlled, and to the postponement or suspension of renewals or repairs, or to exceptional depreciation or obsolescence of assets, or to the necessity in connexion with the present war of providing plant, have effect as though a referee or board of referees appointed or designated by the Minister of Munitions for the purpose were substituted for the board of referees under the principal Act.

56. *Exemption from excess profits duty of businesses carried on under the court.*—In the case of any trade or business which by reason of its being unable to pay its debenture holders or creditors is being carried on by a liquidator, receiver, or trustee under the court, no excess profits duty shall be levied or paid until provision has been made for payment of such unpaid debenture holders or creditors.

57. *Definition.*—In this Part of this Act the expression "munitions Exchequer payments" means any sums paid into the Exchequer under section four of the Munitions of War Act, 1915, on account of the excess of the net profits of a controlled establishment.

* * * * * * * * *

IV. Finance Act, 1917

(7 & 8 George 5., ch. 31, 2nd August, 1917)

Part II.—Income Tax

* * * * * * * * *

16. *Repayment of income tax on sums deducted from profits.*—(1) Where a deduction on account of any of the matters specified in section thirty-nine of the Finance Act, 1916 (which provides for the repayment of income tax on sums deducted from profits) has been allowed for the purposes of excess profits duty in calculating the profits of a controlled establishment for any period during which it is subject to control, that section shall, subject to the necessary modifications, apply as it applies where a deduction has been allowed in

calculating those profits for the purposes of Part II of the Munitions of War Act, 1915 (5 & 6 Geo. 5. c. 54):

Provided that a repayment of income tax shall not be allowed under this section and also under the said section thirty-nine in respect of the same deduction.

(2) Subsection (3) of section twenty-six of the Finance Act, 1907 (7 Edw. 7 c. 13), shall apply, with the necessary modifications, with respect to any repayment of income tax under the said section thirty-nine or this section, as it applies with respect to deductions for wear and tear.

* * * * * * * * *

Part III

Excess Profits Duty

20. *Continuance and increase of rate of excess profits duty.*—(1) The Finance (No. 2) Act, 1915 (in this Part of this Act referred to as the principal Act), shall, so far as it relates to excess profits duty, apply, unless Parliament otherwise determines, to any accounting period ending on or after the first day of August nineteen hundred and seventeen and before the first day of August nineteen hundred and eighteen as it applies to accounting periods ended after the fourth day of August nineteen hundred and fourteen and before the first day of August nineteen hundred and seventeen.

(2) Section thirty-eight of the principal Act shall, as respects excess profits arising in any accounting period commencing on or after the first day of January nineteen hundred and seventeen, have effect as if eighty per cent of the excess were substituted as the rate of duty for sixty per cent of the excess, or, in the case of an accounting period which commenced before that date but ends after that date, as if eighty per cent were substituted for sixty per cent as respects so much of the excess as may be apportioned under this Act to the part commencing on that date.

In calculating any repayment or set off under subsection (3) of section thirty-eight of the principal Act any amount to be repaid or set off on account of a deficiency or loss arising in any accounting period commencing on or after the first day of January nineteen hundred and seventeen, or, in the case of an accounting period which has commenced before that date but ends after that date, on account of so much of the deficiency or loss as may be apportioned under this Act to the part commencing on that date, shall be calculated by reference to duty at the rate of eighty per cent.

Any additional duty payable by virtue of this section in respect of a past accounting period may be assessed and recovered notwithstanding that duty has already been assessed in respect of that period.

(3) It shall be the duty of every person chargeable to excess profits duty, if he has not previously given notice of his liability to be charged with excess profits duty in respect of any accounting period, to give notice to the Commissioners within two months after

the termination of any accounting period in respect of which he is chargeable, or, if the accounting period terminated before the passing of this Act, within one month after the passing of this Act.

If any person fails to give the notice required by this provision he shall be liable on summary conviction to a fine not exceeding one hundred pounds, and to a further fine not exceeding ten pounds a day for every day during which the offence continues after conviction therefor.

21. *Increase of rate of excess mineral rights duty.*—Section forty-three of the principal Act (which relates to excess mineral rights duty) shall have effect as if eighty per cent of the excess were substituted as the rate of duty for sixty per cent for any accounting year commencing on or after the first day of January nineteen hundred and seventeen, or, in the case of an accounting year which commenced before that date but ends after that date, as if eighty per cent were substituted for sixty per cent as respects so much of the excess as may be apportioned under this Act to the part commencing on that date, and any additional duty may be recovered accordingly:

Provided that where it is shown to the satisfaction of the Commissioners that the amount payable as rent under any lease or agreement for a lease for any accounting year in respect of which or any part of which excess mineral rights duty is payable at the rate of eighty per cent is not greater than the average amount payable as rent for the two pre-war years the prices in which are selected by the taxpayer for the purpose of determining the pre-war rent values of the rent for the accounting year, or would be reduced below that amount by the payment of excess mineral rights duty, no excess mineral rights duty or, as the case may be, such an amount of excess mineral rights duty only as will reduce the amount payable as rent for the accounting year to the said average amount, shall be paid for that accounting year.[1]

22. *Special provisions as to deficiencies and losses of shipping concerns.*—(1) In computing the excess profits duty of any trade or business which consists wholly or partly of the business of shipping the provisions of subsection (3) of section thirty-eight of the principal Act (which relate to the repayment or setting off of duty on account of deficiencies or losses) shall not apply in relation to any deficiency or loss in any accounting period commencing on or after the first day of January nineteen hundred and seventeen, and in the case of an accounting period which has commenced before that date but ends after that date, shall not apply in relation to so much of the deficiency or loss as may be apportioned under this Act to the part commencing on that date:

Provided that—

(*a*) where the shipping business is carried on merely as ancillary to the principal trade or business, the provisions of this section shall not apply;

[1] Finance Act, 1919, sec. 32 (2), *infra*, p. 210.

(*b*) where the trade or business carried on does not consist wholly of shipping, and the part which does not consist of shipping is not merely ancillary to the business of shipping, such apportionment of any deficiency or loss shall be made by the Commissioners as may be necessary to limit the application of this section to such part of the business as consists of shipping; and

(*c*) if in any such accounting period as aforesaid there has been a loss or the profits have not reached the point which would have involved liability to excess profits duty if the percentage standard had been adopted, the same amount shall, as respects the deficiency or loss or so much thereof as is affected by this section, be repaid or set off under subsection (3) of the said section thirty-eight as would have been repaid or set off if the percentage standard had been adopted.

(2) Any appeal under subsection (5) of section forty-five of the principal Act on any question arising under this section shall be to the Special Commissioners.

(3) In this section the expression "business of shipping" means the business carried on by an owner of ships, and for the purposes of this definition the expression "owner" includes any charterer to whom a ship is demised.

23. *Relief in respect of Colonial excess profits duty.*—(1) His Majesty may by Order in Council declare—

(*a*) that under the law in force in any of His Majesty's possessions[2] excess profits duty is chargeable in respect of any profits in respect of which excess profits duty is also payable in the United Kingdom; and

(*b*) that arrangements have been made with the Government of any such possession whereby, in respect of any profits, only the duty which is higher in amount is to be payable, and the amount of such duty is to be apportioned between the respective Exchequers in proportion to the amount of duty which would otherwise have been payable in the United Kingdom and in that possession respectively.

(2) Where any such Order in Council is made, then, if the Commissioners are satisfied that any case is one to which any such arrangements relate, they may, in lieu of any relief granted under paragraph 4 of Part I of the Fourth Schedule to the principal Act, allow or make such remission or adjustments of duty as may be necessary to give effect to such arrangements, so, however, that the effect of such remission or adjustments shall not be less favourable than the relief in lieu of which they are allowed or made.

(3) The obligation as to secrecy imposed by subsection (8) of section forty-five of the principal Act shall not prevent the disclosure to the Government of the possession concerned of such facts as may be necessary to enable such arrangements as aforesaid to be carried into effect.

[2] *Cf.* Finance Act, 1919, sec. 31, *infra*, p. 211.

24. *Further provisions with respect to munitions Exchequer payments.*—(1) The provisions of section four of the Munitions of War Act, 1915, with respect to munitions Exchequer payments shall not apply to any profits arising after the thirty-first day of December nineteen hundred and sixteen or apportioned under this Act to the period after that date.

(2) Munitions Exchequer payments arising on or before the thirty-first day of December nineteen hundred and sixteen, or apportioned under this Act to the period down to and including that date shall, after the passing of this Act, be assessed and collected, or, if already assessed but not collected, collected, by the Commissioners, and shall be computed by them in accordance with the provisions of that Act and the rules made thereunder, and the Commissioners shall for those purposes have all the powers of the Minister of Munitions, including the power of making rules.

For the purposes of such assessment and collection, the provisions for the time being in force with respect to the assessment and collection of excess profits duty (including provisions as to returns and penalties, but excluding provisions imposing any charge of duty or as to the computation of duty) shall apply, and rules may be made by the Commissioners accordingly, and the provisions of section forty-eight of the Finance Act, 1916, relating to the adjustment of excess profits duty and munitions Exchequer payments, shall apply subject to such modifications as may be necessary in consequence of the transfer of powers effected by this subsection.

Any rules made by the Commissioners may specify matters which may be referred to the Minister, or to a referee or board of referees appointed by him, and prescribe the manner in which such cases are to be referred.

(3) For the purposes of subsection (3) of section five of the said Act, any establishments in which the same person has a controlling or preponderating interest may, if the Commissioners so determine, be treated as belonging to the same owner.

(4) Subsections (2) and (3) of section forty-nine of the Finance Act, 1916 (which relate to the recovery of payments in respect of increased directors' fees), shall apply for the purposes of munitions Exchequer payments as they apply for the purposes of excess profits duty, with the necessary modifications.

25. *Additional powers of reference to referees.*—Notwithstanding anything contained in section forty-two of the principal Act (which provides for the reference to the Board of Referees of questions as to percentages, &c.) the Commissioners may, if they think fit, refer to the Board of Referees any application made under that section as respects a class of trade or business, although the application may relate to matters already decided by that Board, and the Board may, if they think fit, on cause being shown by additional evidence or otherwise, re-open the case and make any order which they could have made on an application relating to matters not already decided

by them, and may revise any order previously made by them affecting that class of trade or business; and any such order or revised order shall, as from such date as may be specified therein apply and have effect in lieu of any previous order relating to the same matter.

26. *Amendments of law as respects accounting periods ending after December 31st, 1916.*—In the application of Part III of the principal Act to excess profits duty for any accounting period ending after the thirty-first day of December nineteen hundred and sixteen, the following provisions shall have effect:—

(1) In ascertaining the deduction to be made from the profits of the accounting period in respect of increased capital, or the pre-war standard of profits in cases where there has not been one pre-war trade year, three per cent. shall be added to the statutory percentage per annum; and accordingly, in subsection (1) of section forty-one of, and paragraph 4 of Part II of the Fourth Schedule to, the principal Act, the expression "statutory percentage" shall be taken to mean the statutory percentage as so increased:

(2) The statutory percentage shall, in the case of a trade or business not carried on or owned by a company or other body corporate, be taken to be eight per cent instead of seven per cent; and accordingly subsection (2) of section forty of the principal Act shall have effect as though eight per cent were substituted for seven per cent:

Provided that nothing in this provision shall affect the amount of the statutory percentage for the purposes of subsection (2) of section forty-one of the principal Act:

(3) Any increase of the statutory percentage under this section shall be in addition to any increase of the statutory percentage which has, before the passing of this Act, been made under section forty-two of the principal Act:

(4) Where the pre-war standard of profits of any trade or business does not exceed five hundred pounds, and the profits of the accounting period, after any adjustment in respect of increased or decreased capital, are less than two thousand pounds, subsection (1) of section thirty-eight of the principal Act shall have effect as though for two hundred pounds there were substituted two hundred pounds with the addition of one-fifth of the amount by which the profits of the accounting period are less than two thousand pounds; so, however, that if there has been a loss in the accounting period, then for the purpose of ascertaining the amount of any repayment or set-off under the principal Act the addition allowed shall be such as if there had been neither loss nor profit, and that where the accounting period is a period of less than a year, this provision shall have effect as if there were substituted for two thousand pounds and two hundred pounds respectively a proportionately reduced amount:

The foregoing provision shall apply where the pre-war standard of profits exceeds five hundred pounds, subject to this qualification, that the amount of the addition shall be reduced by the amount by which the pre-war standard exceeds five hundred pounds:

(5) Where the Commissioners are satisfied—

(*a*) that in connection with any trade or business two or more distinct and independent industries are carried on in separate establishments, and with books kept in such a manner that the profits in respect of each industry can be readily ascertained; and

(*b*) that in any year by reference to which the pre-war standard of profits is calculated a loss has been sustained in respect of any one or more of such industries;

the Commissioners may, if they think fit, in computing the profits standard, disregard that loss:

(6) Where the Commissioners are satisfied that during the last six pre-war trade years, owing to trading losses—

(*a*) any former assets of any trade or business have ceased to form part of the assets of that trade or business; or

(*b*) the money borrowed in respect of the trade or business or the debts of the trade or business have increased;

the Commissioners shall, for the purpose of ascertaining the capital of the trade or business in any case where the percentage standard is adopted, compute the capital as though there had been no such loss of assets or increase of borrowed money or debts:

(7) Six years shall be substituted for three years in subsection (4) of section forty-one of the principal Act (which provides for the adjustment of excess profits duty in respect of unremunerative capital).

(8) The excess profits duty of a society registered under the Industrial and Provident Societies Acts may, if the society so requires, instead of being computed as provided for by paragraph 10 of Part I of the Fourth Schedule to the principal Act, be computed as follows:—

The amount of excess profits (if any) arising on commercial transactions with non-members shall be separately ascertained in accordance with the general principles of the principal Act, and there shall be added thereto the amount (if any) by which the profit or surplus arising from transactions with members per pound sterling of turnover in the accounting period exceeds the like profit or surplus in the pre-war trade year or average of years taken as the basis of computation for the purpose of the pre-war standard of profits in respect of such commercial transactions as aforesaid, multiplied by the number of pounds sterling of turnover in the accounting period; and excess profits duty shall be charged on the sum of those amounts:

Provided that the method of computation hereby laid down shall not be adopted for ascertaining the amount of any deficiency or loss for the purposes of subsection (3) of section thirty-eight of the principal Act, nor shall any duty computed under this provision be repaid or remitted by reason of a deficiency or loss in any other accounting period computed as provided for by the said paragraph 10.

Regulations made by the Commissioners for the purpose of carrying the foregoing provision into effect may provide for defining and ascertaining turnover and the profit or surplus per pound sterling thereof, and for the application of that provision to new societies, and for extending, subject to such modifications as may be prescribed, to cases where duty is computed under that provision any of the general principles of the principal Act as to relief from duty.

27. *Apportionment of accounting periods and years.* Where part of an accounting period or of an accounting year, or of any period in respect of part of which munitions Exchequer payments are chargeable, is after, and part before, the beginning of the first day of January nineteen hundred and seventeen, the total excess profits and any deficiencies or losses arising in any such accounting period, and the total excess rent for any such accounting year, and the total profits in respect of part of which munitions Exchequer payments are chargeable, shall be apportioned between the time up to, and the time after, that date in proportion to the number of months or fractions of months before and after that date respectively.

28. *Interpretation.*—In this Part of this Act references to the principal Act, or to the Munitions of War Act, 1915, or to any provisions of those Acts, shall be construed as references to those Acts or provisions as amended by any subsequent enactment, and the expression "the Commissioners" means the Commissioners of Inland Revenue, and the expression "munitions Exchequer payments" in this Part of this Act and in any other enactment, includes any sums payable into the Exchequer under section four of the Munitions of War Act, 1915, on account of the excess of the net profits of a controlled establishment.

*   *   *   *   *   *   *   *   *

Part VI

National Debt and Loans

*   *   *   *   *   *   *   *   *

34. *Power to transfer war stock and bonds in satisfaction of death duties and excess profits duties.*—(1) The Treasury may by regulations prescribe as securities to be accepted in payment of any death duty or excess profits duty or munitions Exchequer payments any stock or bonds forming part of any issue made for raising money in connection with the present war, and any such regulations may specify different securities in respect of different duties and payments, and

may prescribe the limitations and conditions subject to which any securities will be accepted, and any person from whom any sum is due on account of any death duty or excess profits duty or munitions Exchequer payments may pay that sum or any part thereof by means of the transfer, in accordance with and subject to the provisions of such regulations as aforesaid, to the Commissioners of Inland Revenue of an appropriate amount (ascertained as hereinafter mentioned) of any stock or bonds authorised by the regulations.

(2) Any stock or bonds so transferred shall be accepted by the Commissioners of Inland Revenue in satisfaction of the amount.

(3) Any stock or bonds so transferred shall be deemed to mature for payment on the date of the transfer, but the principal payable on maturity shall be deemed to be a sum equal to the price of issue, and the principal and interest of the stock or bonds when received by the Commissioners of Inland Revenue shall be brought to account as revenue in such manner as the Treasury may direct.[1]

(4) Stock or bonds so transferred shall for the purposes of this section be valued at the price of issue with the addition of any interest accrued due at the date of transfer but then remaining unpaid, after deducting the amount of any interest which may be receivable by the transferor after that date:[1]

Provided that in the case of excess profits duty and munitions Exchequer payments—

(*a*) if the transfer takes place after the date when the duty or payments become payable there shall be deducted from the value so attributed to the stock or bonds the amount of any interest which accrued due on the stock or bonds after that date; and

(*b*) if the transfer takes place before that date, a sum equal to the value thereof so ascertained as aforesaid shall be deemed to be money deposited under section fifty-four of the Finance Act, 1916, and interest thereon shall be allowed in accordance with that section.

(5) For the purposes of this section interest shall be deemed to accrue from day to day.

(6) Section sixty-one of the Finance Act, 1916, is hereby repealed.

V. Finance Act, 1918
(8 & 9 George 5., ch. 15, 30th July, 1918)

Part II

Income Tax

* * * * * * * * *

24. *Provision with respect to deductions for wear and tear of plant, &c.*—(1) Where an application is made to the Commissioners of Inland Revenue for the alteration of the amount of any deduction for wear and tear, the Commissioners, unless they are of opinion that the

[1] *Cf.* Finance Act, 1918, sec. 42, *infra*, p. 209.

application is frivolous or vexatious, shall refer the case to the Board of Referees, and that Board shall, if they are satisfied that the application is made by or on behalf of any considerable number of persons engaged in any class of trade or business, take the application into their consideration, and determine the deduction to be allowed.

In this section—

The expression "deduction for wear and tear" has the same meaning as in section twenty-six of the Finance Act, 1907; and

The expression "Board of Referees" means any Board of Referees appointed for the purpose of Part III of the Finance (No. 2) Act, 1915, or, if there is no such Board, a Board of Referees to be appointed for the purpose of this section by the Treasury.

* * * * * * * * *

(3) In estimating the profits or gains of any trade, manufacture, adventure, or concern in the nature of trade chargeable under Schedule D., or the profits of any concern chargeable by reference to the rules of that Schedule, there shall be allowed to be deducted as expenses incurred in any year so much of any amount expended in that year in replacing any plant or machinery which has become obsolete as is equivalent to the cost of the plant or machinery replaced after deducting from that cost the total amount of any allowances which have at any time been made in estimating profits or gains as aforesaid on account of the wear and tear of that plant and machinery and any sum realized by the sale of that machinery or plant.

(4) *61 & 62 Vict. c. 10.*—Section nine of the Finance Act, 1898 (which relates to the amount of the deduction to be allowed on account of the annual value of premises), shall not apply in the case of any premises being mills, factories, or other similar premises.

25. *Basis of charge where non-resident is chargeable in name of agent in respect of profits arising from the sale of foreign goods.*—Where a non-resident person is chargeable to income tax in the name of any branch, manager, agent, factor, or receiver in respect of any profits or gains arising from the sale of goods or produce manufactured or produced out of the United Kingdom by the non-resident person, the person in whose name the non-resident person is so chargeable may, if he thinks fit, apply to the Commissioners by whom the assessment is made or, in case of an appeal, to the General or Special Commissioners to have the assessment to income tax in respect of those profits or gains made or amended on the basis of the profits which might reasonably be expected to have been earned by a merchant or, where the goods are retailed by or on behalf of the manufacturer or producer, by a retailer of the goods sold who had bought from the manufacturer or producer direct, and, on proof to the satisfaction of the Commissioners concerned of the amount of the profits on the basis aforesaid, the assessment shall be made or amended accordingly.

* * * * * * * * *

31. *Excess profits duty charged in respect of profits arising from*

the sale of trading stock not to be allowed as a deduction.—Any excess profits duty which becomes chargeable by virtue only of the provisions of this Act relating to profits arising from the sale of trading stock, otherwise than in the ordinary course of trade, shall not for the purpose of the provisions of section thirty-five of the Finance (No. 2) Act, 1915, which enacts that, where a person has paid excess profits duty under that Act, the amount so paid shall be allowed as a deduction in computing profits and gains for the purpose of income tax, be deemed to be excess profits duty under that Act.

* * * * * * * * *

Part III

Excess Profits Duty

34. *Continuation of excess profits duty.*—The Finance (No. 2) Act, 1915 (in this Part of this Act referred to as "the principal Act"), as amended or extended by any subsequent enactment, shall, so far as it relates to excess profits duty, apply, unless Parliament otherwise determines, to any accounting period ending on or after the first day of August, nineteen hundred and eighteen, and before the first day of August, nineteen hundred and nineteen, as it applies to accounting periods ended after the fourth day of August, nineteen hundred and fourteen, and before the first day of August, nineteen hundred and eighteen.

35. *Profits arising from sale of trading stock.*—(1) For the purposes of excess profits duty the profits arising from the sale at any time after the twenty-second day of April, nineteen hundred and eighteen, otherwise than in the ordinary course of trade of the trading stock or part of the trading stock belonging or formerly belonging to any trade or business, shall be deemed to be profits arising from a trade or business, and where any such sale takes place after a trade or business has ceased the trade or business shall be deemed to have been carried on up to and including the date on which the sale takes place, and the accounting period shall be taken to be such as the Commissioners of Inland Revenue may determine.

(2) Where a trade or business has ceased but is deemed for the purposes of this section to have been carried on for any period—

(*a*) the person by whom or by whose authority any trading stock is sold whether as owner, agent, liquidator, trustee, or receiver or other person acting in a similar capacity shall be deemed to be the person carrying on the trade or business and excess profits duty shall be assessed on and recoverable from that person and nothing in subsection (2) of section forty-five of the principal Act shall operate so as to impose any liability to duty on the purchaser of the trading stock; and

(*b*) the appointment of any such liquidator, trustee or receiver, or other person shall not be treated as a change of ownership of the trade or business, and subsection (3) of section thirty-eight of the principal Act and paragraph seven of Part I of the

Fourth Schedule to that Act as amended by any subsequent enactment shall have effect as if the profits arising from the sale of the trading stock had been made by the owner of the business immediately before the appointment of the liquidator, trustee, receiver, or other person, and as if the duty were payable by him.

(3) Where any trading stock is sold together with other assets of the trade or business, the part of the consideration attributable to the trading stock shall, subject to appeal in manner provided by subsection (5) of section forty-five of the principal Act, be determined by the Commissioners of Inland Revenue, and the part of the consideration so determined shall be deemed to be the price paid for the trading stock by the purchaser.

(4) For the purpose of this section any trading stock which has been disposed of otherwise than by way of sale shall be deemed to have been sold, and any such trading stock so disposed of, and any trading stock which has been sold for a consideration other than cash, not being a consideration the value of which can be easily ascertained, shall be deemed to have realized the market price of the day on which it was so disposed of or sold.

No person shall at any time after the fourteenth day of May, nineteen hundred and eighteen, dispose otherwise than by way of sale of any trading stock unless he has previously made provision to the satisfaction of the Commissioners of Inland Revenue for securing the payment of any excess profits duty which may be chargeable by virtue of the provisions of this section, and if any person attempts to dispose of any trading stock in contravention of this provision the disposal shall be void and of no effect.

(5) In this section the expression "trading stock" includes—

(*a*) any goods such as are sold in the ordinary course of a trade or business whether in a finished condition or not; and

(*b*) any raw or other materials used in the manufacture or preparation of any such goods,

and references to disposal of trading stock do not include disposal by way of testamentary disposition.

Part V

General

42. *Amendment of s. 34 of 7 & 8 Geo. 5. c. 31.*—Section thirty-four of the Finance Act, 1917, shall have effect as though there were inserted therein after the words "price of issue," in subsection (3) and subsection (4) thereof, the words "or such other price as was specified in the conditions subject to which the stock or bonds were issued as the price at which the stock or bonds were to be valued for the purposes of this section."

VI. Finance Act, 1919

(9 & 10 George 5., ch. 32, 31st July, 1919)

* * * * * * * * *

Part IV

Excess Profits Duty

32. *Continuance of excess profits duty at decreased rate.*—(1) The Finance (No. 2) Act, 1915 (in this Part of this Act referred to as "the principal Act"), shall, so far as it relates to excess profits duty, apply, unless Parliament otherwise determines, to any accounting period ending on or after the first day of August nineteen hundred and nineteen, and before the fifth day of August nineteen hundred and twenty, as it applies to accounting periods ended after the fourth day of August nineteen hundred and fourteen, and before the first day of August nineteen hundred and nineteen.

(2) Section thirty-eight of the principal Act shall, as respects excess profits arising in any accounting period commencing on or after the first day of January, nineteen hundred and nineteen, have effect as if forty per cent of the excess were substituted as the rate of duty for eighty per cent of the excess, or, in the case of an accounting period which commenced before that date but ends after that date, as if forty per cent were substituted for eighty per cent as respects so much of the excess as may be apportioned under this Part of this Act to the part commencing on that date.

In calculating any repayment or set off under subsection (3) of section thirty-eight of the principal Act, any amount to be repaid or set off on account of a deficiency or loss arising in any accounting period commencing on or after the first day of January, nineteen hundred and nineteen, or, in the case of an accounting period which has commenced before that date but ends after that date, on account of so much of the deficiency or loss as may be apportioned under this Part of this Act to the part commencing on that date, shall be calculated by reference to duty at the rate of forty per cent.

33. *Decrease of rate of excess mineral rights duty.*—(1) Section forty-three of the principal Act (which relates to excess mineral rights duty) shall have effect as if forty per cent of the excess were substituted as the rate of duty for eighty per cent for any accounting year commencing on or after the first day of January, nineteen hundred and nineteen, or, in the case of an accounting year which commenced before that date but ends after that date, as if forty per cent were substituted for eighty per cent as respects so much of the excess as may be apportioned under this Part of this Act to the part commencing on that date.

(2) The proviso to section twenty-one of the Finance Act, 1917, shall apply to any accounting year in respect of which or any part of which excess mineral rights duty is payable at the rate of forty per cent, as it applies where the said duty is payable at the rate of eighty per cent.

34. *Extension of relief in respect of Colonial excess profits duty.*—Section twenty-three of the Finance Act, 1917 (which provides for relief in respect of Colonial excess profits duty), shall have effect, and shall be deemed always to have had effect, as though references to His Majesty's possessions included references to any territory under His Majesty's protection.

35. *Apportionment of accounting periods and years.*—Where part of an accounting period or of an accounting year is after, and part before, the beginning of the first day of January, nineteen hundred and nineteen, the total excess profits and any deficiencies or losses arising in any such accounting period, and the total excess rent for any such accounting year, shall be apportioned between the time up to, and the time after, that date in proportion to the number of months or fractions of months before and after that date respectively.

36. *Interpretation.*—In this Part of this Act references to the principal Act, or to any provisions of that Act, shall be construed as references to that Act, or those provisions, as amended or extended by any subsequent enactment.

APPENDIX B

Text of Finance Act, 1920, Amending Excess Profits Duty

(10 & 11 Geo. 5, ch. 18, 4th Aug., 1920)

* * * * * * * * * *

Part IV

Excess Profits Duty

44. *Continuance and increase of rate of excess profits duty.*—(1) The Finance (No. 2) Act, 1915 (in this Part of this Act referred to as "the principal Act," 5 & 6 Geo. 5. c. 89), shall, so far as it relates to excess profits duty, apply, unless Parliament otherwise determines, to any accounting period ending on or after the fifth day of August nineteen hundred and twenty, and before the fifth day of August nineteen hundred and twenty-one, as it applies to accounting periods ended after the fourth day of August, nineteen hundred and fourteen, and before the fifth day of August, nineteen hundred and twenty.

(2) Section thirty-eight of the principal Act shall, as respects excess profits arising in any accounting period commencing on or after the first day of January, nineteen hundred and twenty, have effect as if sixty per cent of the excess were substituted as the rate of duty for forty per cent of the excess, or, in the case of an accounting period which commenced before that date but ends after that date, as if sixty per cent were substituted for forty per cent as respects so much of the excess as may be apportioned under this Part of this Act to the part commencing on that date.

In calculating any repayment or set off under subsection (3) of section thirty-eight of the principal Act any amount to be repaid or set off on account of a deficiency or loss arising in any accounting period commencing on or after the first day of January, nineteen hundred and twenty, or, in the case of an accounting period which has commenced before that date but ends after that date, on account of so much of the deficiency or loss as may be apportioned under this Part of this Act to the part commencing on that date, shall be calculated by reference to duty at the rate of sixty per cent.

Any additional duty payable by virtue of this section in respect of a past accounting period may be assessed and recovered notwithstanding that duty has already been assessed in respect of that period.

(3) In the case of a trade or business which is owned or carried on by any person who has served during the war as a member of any of the naval or military forces of the Crown, or of the Air Force or in service of a naval or military character in connection with the war for which payment was made out of money provided by Parliament, or in any work abroad of the British Red Cross Society or the Order of St. John of Jerusalem or any other body with similar objects, and which was commenced by that person for the first time, or having been wholly discontinued by him during the war or some part of the war was recommenced by him, after his demobilisation or discharge, subsection (1) of section thirty-eight of the principal Act

shall have effect as though "five hundred pounds" were substituted for "two hundred pounds."

45. *Amendments as respects pre-war standard in accounting periods ending after 31st December 1919.*—In the application of Part III. of the principal Act to excess profits duty for any accounting period ending after the thirty-first day of December, nineteen hundred and nineteen, the following provisions shall have effect:—

(1) For the pre-war standard of profit there shall, on the application of the taxpayer, be substituted a standard (in this section referred to as "the substituted standard") of an amount equal in the case of a trade or business which had no pre-war trade year to the statutory percentage on the average amount of capital employed in the first accounting period, and in the case of any other trade or business to the percentage standard with the addition in either case of a sum of five hundred pounds in respect of each working proprietor in the trade or business:

Provided that—

(*a*) the amount of the substituted standard shall not, as respects any trade or business, exceed the sum of seven hundred and fifty pounds in respect of each working proprietor in the trade or business; and

(*b*) in computing the profits of a trade or business in any accounting period as respects which the substituted standard is in force, no deduction shall be allowed in respect of the remuneration of any working proprietor; and

(*c*) where the accounting period is less than a year the substituted standard shall be proportionately reduced; and

(*d*) where a substituted standard has been adopted in the case of any trade or business for any accounting period the provisions of paragraph (4) of section twenty-six of the Finance Act, 1917, as amended by this Part of this Act, shall not have effect as regards that trade or business in respect of that accounting period.

(*e*) Nothing in this paragraph shall affect the operation of any agreements made between the Food Controller and the owners of controlled flour mills which provide for determining the amount of any payment to be made or received under such agreements by reference to the pre-war standard of profits, and any such agreements shall have effect as if this Act had not passed.

In this paragraph—

The expression "trade or business" means any trade or business carried on either by an individual or by persons in partnership or by a private company within the meaning of the Companies (Consolidation) Act, 1908;

The expression "proprietor" means, as the case may be, the individual carrying on the business, any partner in the partnership, or any director of the company owning not less than twenty per cent of the share capital or stock of the company;

The expression "working proprietor" means a proprietor who has, during not less than one half the accounting period, worked full time in the actual management or conduct of the trade or business, but no person shall be deemed to be a working proprietor in the same accounting period in respect of more than one trade or business;

Where any person who served during the war as a member of any of the naval or military forces of the Crown or of the Air Force or in service of a naval or military character in connection with the war, for which payment was made out of moneys provided by Parliament, or in any work abroad of the British Red Cross Society or the Order of St. John of Jerusalem or any other body with similar objects, and was before entering on such service working full time in the actual management or conduct of a trade or business, has died and the trade or business is being carried on for the benefit of his widow, the same standard shall be allowed for the trade or business as would have beeen allowed under the foregoing provisions of this section if the deceased person had been a working proprietor during the accounting period.

(2) Any trade or business carried on or owned by a company or other body corporate whose directors have a controlling interest shall, for the purpose of the provisions of the principal Act relating to the statutory percentage as amended by any other enactment, be treated as if it were a trade or business carried on or owned by a body other than a body corporate:

In this paragraph the expression "director" includes any person engaged in the management of the trade or business whose remuneration is provided out of the funds of the trade or business.

(3) In paragraph (4) of Part II. of the Fourth Schedule to the principal Act the words "during the first accounting period" shall be substituted for the words "during the accounting period."

46. *Amendment of ss. (3) of s. 38 of 5 & 6 Geo. 5. c. 89, with respect to munitions exchequer payments.*—For the purposes of any claim to repayment or set-off under subsection (3) of section thirty-eight of the principal Act (which provides for the repayment of excess profits duty paid and for a set-off against excess profits duty payable), any sum paid by the claimant by way of munitions exchequer payments shall be treated as though it were a sum paid by way of excess profits duty.

47. *Amendments of s. 26 of 7 & 8 Geo. 5. c. 31 as respects accounting periods ending after 31st December 1919.*—In the application of Part III. of the principal Act to excess profits duty for any accounting period ending after the thirty-first day of December, nineteen hundred and nineteen, section twenty-six of the Finance Act, 1917, shall have effect as though in paragraph (1) "five per cent" were substi-

tuted for "three per cent," and as though in paragraph (4) for the words "five hundred pounds" and "two thousand pounds," respectively, wherever those words occur, there were substituted the words "two thousand pounds" and "four thousand pounds," respectively.

48. *Allowance in respect of charitable contributions.*—Where, out of the profits of a trade or business, any contribution has been made after the sixteenth day of July, nineteen hundred and twenty, to any trust, society, or body of persons in the United Kingdom established solely for the purpose of the relief of the poor or the sick, or for the advancement of religion, education, or for scientific research, there shall, for the purposes of excess profits duty, be allowed, in the computation of the profits of the trade or business arising in the accounting period within which such contribution was made, a deduction in respect of such contribution of an amount not exceeding five per cent of those profits as calculated for the purposes of excess profits duty (before adjustment for increased or decreased capital and before making any deduction under this section), and not exceeding twenty per cent of the amount of such contribution.

This section shall not apply to any contribution which, apart from the provisions of this section, would be admissible as a deduction from profits for the purposes of excess profits duty.

49. *Increase of rate of excess mineral rights duty.*—(1) Section forty-three of the principal Act (which relates to excess mineral rights duty) shall have effect as if sixty per cent of the excess were substituted as the rate of duty for forty per cent for any accounting year commencing on or after the first day of January, nineteen hundred and twenty, or, in the case of an accounting year which commenced before that date but ends after that date, as if sixty per cent were substituted for forty per cent as respects so much of the excess as may be apportioned under this Act to the part commencing on that date, and any additional duty may be recovered accordingly.

(2) The proviso to section twenty-one of the Finance Act, 1917 (*7 & 8 Geo. 5. c. 31*), shall apply to any accounting year in respect of which or any part of which excess mineral rights duty is payable under this Part of this Act at the rate of sixty per cent, as it applies where the said duty is payable at the rate of eighty per cent.

50. *Apportionment of accounting periods and years.*—Where part of an accounting period or of an accounting year is after, and part before, the beginning of the first day of January, nineteen hundred and twenty, the total excess profits and any deficiencies or losses arising in any such accounting period, and the total excess rent for any such accounting year, shall be apportioned between the time up to, and the time after, that date in proportion to the number of months or fractions of months before and after that date respectively.

51. *Interpretation.*—In this Part of this Act references to the principal Act, or to any provisions of that Act, shall be construed as references to that Act, or those provisions as amended and extended by any subsequent enactment.

* * * * * * * * *

APPENDIX C

TEXT OF FINANCE ACT, 1920, RELATING TO CORPORATION PROFITS TAX (10 & 11 Geo. 5, ch. 18, 4th Aug., 1920)

*   *   *   *   *   *   *   *   *

PART V

CORPORATION PROFITS TAX

52. *Charge of corporation profits tax.*—(1) Subject as provided in this Act, there shall be charged, levied and paid on all profits being profits to which this Part of this Act applies and which arise in an accounting period ending after the thirty-first day of December, nineteen hundred and nineteen, a duty (in this Act referred to as "corporation profits tax") of an amount equal to five per cent of those profits:

Provided that—

(*a*) where the profits are profits arising in an accounting period of twelve months, no tax shall be charged on the first five hundred pounds thereof, and where the profits are profits arising in some shorter accounting period, no tax shall be charged on such amount of the profits as bears to five hundred pounds the same proportion as the shorter accounting period bears to twelve months; and

(*b*) the amount of tax payable in respect of the profits of a British company for any accounting period shall in no case exceed the amount represented by ten per cent of the balance of the profits of that period estimated in accordance with the provisions of this Part of this Act, after deducting from the amount of those profits any interest or dividends actually paid out of those profits at a fixed rate on any debentures, debenture stock, preference shares (so far as the dividend paid thereon is at a fixed rate) or permanent loan issued before the commencement of this Act, or on any debentures, debenture stock, or permanent loan issued after that date for the purpose of replacing an equal amount of any debentures, debenture stock, or permanent loan issued after that date.

(2) The profits to which this Part of this Act applies are, subject as herinafter provided, the following, that is to say:—

(*a*) the profits of a British company carrying on any trade or business, or any undertaking of a similar character, including the holding of investments:

(*b*) the profits of a foreign company carrying on in the United Kingdom any trade or business, or any undertaking of a similar character, so far as those profits arise in the United Kingdom.

Provided that this Part of this Act shall not, during the period between the first day of January, nineteen hundred and twenty, and the

thirty-first day of December, nineteen hundred and twenty-two, apply to the profits of—

(i) a company which carries on wholly in the United Kingdom any gas, water, electricity, tramway, hydraulic power, dock, canal, or railway undertaking, and which by, or by virtue of, any Act is precluded either from charging any higher price, or from distributing any higher rate of dividend than that authorised by, or by virtue of, the Act; or

(ii) any company being a building society.

(3) In this Part of this Act—

The expression "company" means any body corporate so constituted that the liability of its members is limited, but does not include a company formed before the commencement of this Act whose assets consist wholly of stock or other securities issued by any public authority and formerly held by the persons by whom the company was formed:

The expression "British company" means any company incorporated by or under the laws of the United Kingdom:

The expression "foreign company" means any company which is not a British company:

The expression "permanent loan" means a loan of a permanent character which is secured by mortgage or debentures or otherwise on the assets or income of a company and which, if subject to repayment, is subject to repayment at not less than three months' notice.

53. *Determination of profits.*—(1) For the purpose of this Part of this Act profits shall be taken to be the actual profits arising in the accounting period, and shall not be computed by reference to the income tax year or on the average of any years.

(2) Subject to the provisions of this Act profits shall be the profits and gains determined on the same principles as those on which the profits and gains of a trade would be determined for the purposes of Schedule D, set out in the First Schedule to the Income Tax Act, 1918, as amended by any subsequent enactment, whether the profits are assessable to income tax under that Schedule or not:

Provided that for the purpose of this Part of this Act—

(*a*) profits shall include all profits and gains arising from any lands, tenements, or hereditaments forming part of the assets of a company, and all interest, dividends and other income arising from investments or any other source and received in the accounting period, not being interest, dividends or income received from a company liable to be assessed to corporation profits tax in respect thereof, and no deduction shall be allowed on account of the annual value of any premises used for the purposes of the company:

(*b*) deductions shall be allowed in respect of interest on money borrowed for the purposes of the company and for rent or royalties or share of profits distributed to employees under a

profit-sharing scheme, and of any other payment income tax on which is collected at the source, not being payments of dividends or payments for the distribution of profits, so, however, that no deduction shall be allowed in respect of royalties paid to or interest on money borrowed from, a person having a controlling interest in the company, whether directly or indirectly, or whether solely or jointly with other persons, or in respect of interest paid on permanent loans:

(*c*) any deduction allowed in respect of the remuneration of any director, manager or other person concerned in the management of a company, who has a controlling interest in the company, whether directly or indirectly, and whether solely or jointly with any other persons, shall not exceed an amount calculated at the rate of one thousand pounds per annum:

(*d*) no deduction shall be allowed in respect of any transaction or operation of any nature, which has artificially reduced the amount to be taken as the amount of the profits of the company for the purposes of this Part of this Act:

(*e*) no deduction on account of wear and tear or renewals or obsolescence or any expenditure of a capital nature for the development of the company or otherwise in respect thereof shall be allowed other than such as may be allowed under the enactments relating to income tax:

(*f*) no deduction shall be allowed on account of the liability to pay, or the payment of, income tax or corporation profits tax:

(*g*) a deduction shall be allowed on account of any excess profits duty payable or paid in the United Kingdom and for any sum payable or paid on account of excess profits duty or similar duty imposed in any country, outside the United Kingdom for the same accounting period, but in computing profits for the purposes of Excess Profits Duty in the United Kingdom no deduction shall be allowed on account of the liability to pay or the payment of tax under this Part of this Act:

(*h*) profits shall include in the case of mutual trading concerns the surplus arising from transactions with members, and in the case of a society registered under the Industrial and Provident Societies Act, 1893, (*56 & 57 Vict. c. 39*), any sums paid by way of bonus, discount or dividend on purchases, shall be treated as trade expenses, and a deduction shall accordingly be allowed in respect thereof:

(*i*) in the case of a company carrying on the business of life assurance the part of the profits belongnig or allocated to, reserved for or expended on behalf of policy holders or annuitants shall be apportioned between the profits of the company directly liable to assessment to corporation profits of the company directly liable to assessment to corporation profits tax and the profits not so liable, and a deduction shall

be allowed of the amount so apportioned to the profits so liable:

Where a company carries on life assurance business in conjunction with assurance business of any other class the life assurance business of the company shall, for the purposes of apportionment under this paragraph but for no other purpose, be treated as if it were a separate business carried on by a separate company:

(*j*) any sum received by way of repayment of excess profits duty in respect of a previous accounting period under subsection (3) of section thirty-eight of the Finance (No. 2) Act, 1915, and subsequent amendments thereof shall be excluded from the profits taxable:

(*k*) In the case of any contract extending beyond one accounting period from the date of its commencement to the completion thereof and only partially performed in any accounting period there shall (unless the Commissioners of Inland Revenue owing to any special circumstances otherwise direct) be attributed to each of the accounting periods in which such contract was partially performed such proportion of the entire profits or loss, or estimated profits or loss, in respect of the complete performance of the contract as shall be properly attributable to such accounting periods respectively, having regard to the extent to which the contract was performed in such periods.

(3) Where a company (hereinafter referred to as "the principal company") holds either in its own name or in that of a nominee the whole of the ordinary capital of any other company (hereinafter referred to as "the subsidiary company") or so much of that capital as under the general law can lawfully be held by a single shareholder, the profits of the subsidiary company shall, if an application in that behalf is made by the principal company, be treated for the purposes of this Part of this Act as being the profits of the principal company as if the subsidiary company were a branch of the principal company, and the subsidiary company shall not be separately assessed to tax under this Part of this Act:

Provided that in ascertaining, under paragraph (*b*) of subsection (1) of the last preceding section, the maximum amount of tax payable by the principal company, no deduction shall be allowed in respect of any payments made by the subsidiary company to the principal company, or any other company which in relation to the principal company is a subsidiary company within the meaning of this subsection.

54. *Determination of accounting period.*—(1) For the purposes of the tax under this Part of this Act the accounting period shall be a period of twelve months ending on the date up to which the accounts of the company are usually made up:

Provided that where the accounts of a company have been made up

for a period greater or less than twelve months, or where the accounts have not been made up or where the company has ceased to carry on business or has transferred its business or part of its business to some other person, the accounting period shall be such period not exceeding twelve months as the Commissioners of Inland Revenue may determine.

(2) In the case of a company which was in existence before the beginning of the first day of January, nineteen hundered and twenty, the first accounting period for the purpose of this Part of this Act shall be the first accounting period of the company which ends after that date:

Provided that where part of an accounting period is after and part before the beginning of the first day of January, nineteen hundred and twenty, the total profits of the accounting period shall be apportioned between the period up to and the period beginning on that date in proportion to the respective lengths of those periods, and corporation profits tax shall be charged only on so much of the profits as are apportioned to the period beginning on that date, and that period shall be deemed to be an accounting period for the purpose of this Part of this Act.

(3) The Commissioners of Inland Revenue may, if they think fit, divide any periods for which accounts have been made up, and may make such apportionments or aggregations of profits and losses as may be necessary for the purpose of estimating the profits or losses for the yearly accounting period, or for any other purpose of this Part of this Act.

Any apportionment under this subsection shall be made in proportion to the number of months or fractions of months in the respective periods representing the divided periods.

55. *Returns for purpose of Part V and penalty for fictitious transactions.*—(1) The Commissioners of Inland Revenue may, for the purposes of this Part of this Act, require the secretary of a company or other officer (by whatever name called) performing the duties of secretary of the company, or, in the case of a foreign company, any person being an agent, manager, factor, or representative (by whatsoever name called) of the company, to furnish them within two months after the requirement for the return is made with returns of the profits of the company during any accounting period and such other particulars in connection therewith as the Commissioners may require.

(2) Where the profits of any company are chargeable to corporation profits tax under this Part of this Act it shall be the duty of every person who may be required to make a return under this section to give notice that the profits are so chargeable to the Commissioners of Inland Revenue within six months of the end of the period for which the accounts of the company are made up, unless he has been previously required by the Commissioners to make a return under this section, and it shall be the duty of the liquidator of every

company which is being wound up at the time of the commencement of this Act or is wound up after the commencement of this Act, and is chargeable to corporation profits tax, to give notice of the fact to the Commissioners of Inland Revenue.

(3) If any person fails to furnish a proper return in accordance with the foregoing provisions of this section or to comply with any requirement of the Commissioners under this section, or to give any notice required by this section, he shall be liable on summary conviction to a fine not exceeding one hundred pounds and to a further fine not exceeding ten pounds a day for every day during which the offence continues after conviction therefor.

(4) A company shall not, for the purpose of avoiding the payment of corporation profits tax, enter into or carry out any fictitious or artificial transaction.

If any company acts in contravention of this provision the company, and in the case of a foreign company the agent, manager, factor, or other representative of the company, shall be liable on summary conviction to a fine not exceeding five hundred pounds.

56. *Supplementary provisions as to corporation profits tax.*—(1) Corporation profits tax shall be assessed by the Commissioners of Inland Revenue and shall be payable on the expiration of two months from the date on which it is assessed.

(2) Where a company on whose profits the tax is to be assessed is a British company the tax shall be assessed on the company, and where the company on whose profits the tax is to be assessed is a foreign company the tax shall be assessed on the company in the name of any agent, manager, factor or other representative of the company.

(3) Where a company is in the course of being wound up, the liquidator, receiver or other person having the control of the assets of the company shall not distribute the same until provision has been made to the satisfaction of the Commissioners of Inland Revenue for the payment of any corporation profits tax for which the company may be liable.

Any liquidator, receiver or such other person as aforesaid who distributes the assets of the company without making such provision as aforesaid shall be liable to a fine not exceeding three times the amount of any corporation profits tax which may be payable.

(4) An assessment (including an additional assessment) may be made by the Commissioners of Inland Revenue at any time within six years after the end of the accounting period in respect of the profits on which the assessment is made, and in the absence of a satisfactory return or other information on which to make an assessment the Commissioners may make an assessment according to the best of their judgment.

(5) The amount of corporation profits tax payable shall be recoverable as a debt due to His Majesty from the company on which it is assessed, or in the case of a foreign company from the person in whose name the company is chargeable, and where the amount of tax

payable is less than fifty pounds the tax shall, without prejudice to any other remedy, be recoverable summarily as a civil debt.

(6) Any company which is dissatisfied with the amount of any assessment made upon it by the Commissioners of Inland Revenue under this Part of this Act may appeal to the Commissioners for the general purposes of income tax acting for the division in which the company is assessed for income tax or to the Commissioners for the special purposes of the Income Tax Acts, and those Commissioners shall have power on any appeal, if they think fit, to summon witnesses and examine them upon oath.

The power under section one hundred and ninety-six of the Income Tax Act, 1918, to require an appeal in Ireland to the Special Commissioners to be reheard by the county court judge, or chairman of quarter sessions, or recorder, shall apply to an appeal in Ireland under this provision.

Section one hundred and forty-nine of the Income Tax Act, 1918 (which relates to the statement of a case on a point of law), shall apply with the necessary modifications in the case of any appeal to the General or Special Commissioners under this section, or of the rehearing of any such appeal in Ireland, as it applies in the case of appeals to the General or Special Commissioners under the Income Tax Acts.

(7) The commissioners of Inland Revenue may make regulations with respect to the assessment and collection of the corporation profits tax and the hearing of appeals under this section, and may by those regulations apply and adapt any enactments relating to the assessment and collection of income tax, or the hearing of appeals as to income tax by the General or Special Commissioners, which do not otherwise apply.

(8) All Commissioners and other persons employed for any purpose in connection with the assessment or collection of corporation profits tax shall be subject to the same obligations as to secrecy with respect to corporation profits tax as those persons are subject to with respect to income tax, and any oath taken by any such person as to secrecy with respect to income tax shall be deemed to extend also to secrecy with respect to corporation profits tax.

APPENDIX D

Assessment of Insurance Companies Under the Excess Profits Duty

The following specific queries were submitted to the Board of Inland Revenue regarding the method of arriving at the tax liability of insurance companies under the British Excess Profits Duty:

"What is the method of computing the net income and invested capital of insurance companies, particularly mutual life insurance companies? If additions to reserves are allowable deductions, are the corresponding reserves treated as part of the invested capital, rather than as liabilities, for purposes of the Excess Profits Duty? In general, are reserves similar to the re-insurance or main policy reserve of a life insurance company treated as 'borrowed money' in computing invested capital? By 'invested capital' is meant the capital sum to which the percentage deduction is applied when that method of computing the principal deduction or credit under the Excess Profits Duty is employed."

The reply of the British officials, which appears in detail below, reveals (1) that mutual life insurance companies are not considered to be "carrying on business" within the scope of the Excess Profits Duty legislation; (2) that life insurance companies in general, although within the scope of the application of the law, have not made profits great enough to render them liable: and (3) that other types of insurance companies are taxed under interesting compromise plans evolved as the result of appeals to the Board of Referees:

"As regards fire, accident and general insurance companies (other than life and marine), the invested capital does not form the basis of the pre-war standard of profits that is to be allowed in calculating the excess. The companies applied under Section 42 of the Finance (No. 2) Act, 1915, for an altered basis on the ground that the capital employed in the business is small compared with the capital at stake. The Board of Referees ordered that the percentage laid down by the Act should be granted on the capital at stake, which they determined should be taken to be equivalent to one-half of the net premium income of the year at the end whereof capital is to be reckoned.

"In these cases the net income corresponds roughly with the net profit shown by the accounts, except that income from invested capital is excluded. Any increase or decrease in reserve for unexpired risks, or for claims received but not adjusted, is taken into account; but no allowance is made for reserves for other purposes, or for a general reserve.

"As regards marine insurance companies, the percentage is also applied to the capital at stake and not to the invested capital. The capital at stake is (by virtue of an order of the Board of Referees) to be taken as the equivalent of the net premium income of the year at the end whereof capital is to be reckoned.

"The net income corresponds roughly with the net profits shown by

the accounts, except that income from invested capital is excluded. Ordinarily the account of a particular year is not closed until two years after its termination. In practice provisional assessments are made, and are adjusted when the account has been completed. Any necessary reserve for outstanding claims at the close of the account is allowed, but no allowance is made for other reserves or for a general reserve.

"As regards life insurance companies, the question of a liability in respect of excess profits has not been found to arise. Under the British income tax acts, a life insurance company is chargeable to income tax on the interest on its investments (less the expenses of management, including commissions), or on the amount of its profits (including amounts allotted to policy holders),—whichever is the greater. If the same basis of computing income were adopted for excess profits duty, and capital were taken to be the whole funds including the investments, it is obvious that the income would not be likely to exceed 6 per cent of the capital, in view of the nature of the investments of a like office. On the other hand, if, for Excess Profits Duty purposes, only the profits credited to the account of the shareholders and only the capital of the shareholders were to be considered, although those profits might often exceed 6 per cent of that capital, it would be very unusual, owing to war mortality and depreciation of investments, to find that the profits credited to shareholders' account exceeded the profits so credited in the pre-war standard years, which in the case of the British Excess Profits Duty can always be adopted for standard purposes, instead of the percentage on capital, which is merely an alternative standard granted in the interests of the taxpayer in cases where the pre-war profits were very low.

"It will be appreciated from the above, that the question of an Excess Profits Duty calculation for life assurance companies has only arisen in connection with a *deficit* below the pre-war standard of profits, in the case of composite companies carrying on life business, together with fire, marine, accident or general business, in which latter classes of business there have been excess profits against which it is desired to set off the deficit in the life business. This point has arisen lately, and . . . the method of computation has not been finally arranged. . . .

"Mutual Life Insurance Companies are not regarded as carrying on the businesses within the scope of the Excess Profits Duty legislation.

"Under the Excess Profits Duty rules, any borrowed money or *debts* fail to be deducted in computing capital. Although the point has not arisen in a form that has necessitated a decision, it is considered that the reserve made by the actuary as representing the liability to policy holders could not be held to be borrowed money, but that it could be held to be a debt, inasmuch as the policy holders have a vested interest.

"It is considered that, if under the British Excess Profits Duty

law it became necessary to calculate the capital of a proprietary life insurance company, it should be computed by taking the amount of the Balance Sheet Assets, and deducting therefrom the Balance Sheet Liabilities exclusive of the shareholders' capital, but including the whole of the Life Assurance Fund, and any reserve funds so far as they are held for the exclusive benefit of policy holders. It is believed that this would give a fair measure of the shareholders' capital in the business, except that in some cases a fraction of the undivided surplus of the life fund might be held to appertain to the shareholders. The general result would often be that that capital so calculated would be relatively small, and it might result in application being made to the Board of Referees to substitute capital at stake for capital invested, wherever, as happens in most cases, there is considerable uncalled capital. The strain on capital in the case of most life insurance companies is, of course, very small, and it is not anticipated that if such an application were made, the decision would be anything like so favorable to the companies as in the case of the application by fire, accident and general companies. As, however, ... any question is only likely to arise in claims to set off a deficit in a life assurance business against an excess in another business, and as the allowance of such a claim does not rest on statutory authority but on administrative concession, it is not anticipated that there will be difficulty in gaining acceptance of a method that provides substantial justice."

APPENDIX E

Select List of Manuals on Excess Profits Duty

Langdon, A. M. *The Excess Profits Duty and Excess Mineral Rights Duty.* (Stephens and Haynes, Bell Yard, Temple Bar, London.)

Murray and Carter. *A Guide to Income Tax Practice and Excess Profits Duty.* Eighth Edition. (Gee and Co., 34 Moorgate Street, London, E. C. 2.)

Piper, J. E. *Finance Acts of 1915 with notes. Supplement to Dowell's Income Tax.* (Butterworth and Co., Bell Yard, Temple Bar, London.)

Sanders, William. *Law and Practice of Excess Profits Duty.* (Gee and Co., 34 Moorgate Street, London, E. C. 2.)

Snelling, W. E. *Excess Profits Duty, including Excess Mineral Rights Duty and Munitions Levies.* (Sir Isaac Pitman, 1 Amen Corner, London, E. C.)

Spicer and Pegler. *Excess Profits Duty and Profits of Controlled Establishments.* (Foulks, Lynch and Co., 61 Watling Street, London, E. C. 4.)

Underhay, F. G. *Income Tax, including Excess Profits Duty.* (Ward, Lock and Co., London.)

APPENDIX F

Opinion Given by the Committee of Consulting Accountants on Stock Valuations for Munitions Levy and Excess Profits Duty Purposes

We have considered the proposal[1] made by the Association of Controlled Owners to the Inland Revenue Department at the meeting of June 8th, 1917, for the basis to be adopted in the valuation of stocks on hand, which is set forth in the attached statement.

These proposals would--

(a) deprive the Treasury of a considerable sum which it would otherwise receive either under Munitions Levy or under Excess Profits Duty, and

(b) leave the owners with stocks at the end of the last accounting period considerably below market values prevailing or likely to prevail for many years after that date

We consider that there is only one sound general principle of valuing stocks for the purposes of these Acts, and that is:—

That all stocks of every sort or kind should be valued at the end of each accounting period on the basis of cost price or market value, *whichever is the lower.* This principle rests upon the theory (which is perfectly sound) that profits can only be realised by the sale of commodities and that no profits can arise by mere increase of value unaccompanied by a sale. To follow this out consistently, stocks therefore should be carried at their cost price until they are sold and the profit is ascertained. Where, however, the market price is lower than the cost, a precautionary reserve is permissible for the difference between the cost and the market value.

We are of opinion that this principle should be adopted throughout in determining profits, whether for the purposes of Munitions Levy or Excess Profits Duty, with, however, the following qualification:—

In certain base-metal manufacturing trades, such as copper, pig iron, lead, spelter, &c., it has been the custom for a long period in the past to adopt what is known as a "base value" for part of these materials, on the theory that it is necessary for the undertakings using

[1] This proposal was in the following terms:—

The valuation of all stocks of materials and stores and of manufactured or partly manufactured products shall be dealt with at the end of each accounting period and at the end of control as follows:—

(a) An amount in weight or quantity, equivalent to the weight or quantity of the stocks at the beginning of the first accounting year shall be valued at the same prices as at the beginning of the first accounting year.

(b) Any surplus shall be valued at cost price, provided that firms shall be entitled to realise such surplus over a period of one year from the date that control ends, the loss, if any, being defrayed from excess profits.

(c) Where there is a deficiency of stocks, a firm shall be entitled to a replacement or an equivalent allowance.

(d) Purchase contracts so far as existing at the beginning of the first accounting period shall, to the extent of any deliveries thereunder during control, be reckoned as stock at the beginning of the first accounting period.

them to keep a reserve stock to protect themselves against results of strikes and adverse fluctuations in market value, &c., and for this purpose they have adopted a value which represents what may be called a minimum cost over a series of years for a minimum quantity; in theory, keeping this minimum quantity untouched and unused, although in practice no actual reserve stock may be kept which could be identified at any time; any excess over this amount is valued at cost or market value, whichever is the lower.

It appears to have been the practice of the Inland Revenue to admit for Income Tax purposes stock valuations of this character in the case of base metals, provided that it is the general custom of the particular trade, and has also been the practice in the individual case, and it will be difficult now to disturb this practice. The conditions, however, during the war period are so abnormal, and the effect upon Excess Profits Duty and Munitions Levy of this practice is so important, that a modification thereof would seem to be necessary. The prices of these base metals have risen continuously and to levels which have hardly been known in the past. If an owner adopting this method of valuation is allowed to continue it throughout the period to which Excess Profits Duty applies, he will, in effect, be making an increasingly large reserve during each year of rising prices to the extent of the increase in the cost price of the base stock which may have been used and replaced during that year, and will as a result pay considerably less Excess Profits Duty than would be paid by an exactly similar concern which values its stocks on the usual basis of cost or market.

We think that in cases where base stock valuations are accepted, the same reserve (*i.e.*, amount sterling) should be permitted at the close of the last period of assessment as at the beginning of the first period of assessment, viz., an amount equivalent to the margin between the base price and the market price on the minimum quantity at the beginning of the first period of assessment. In effect this will mean that those concerns in which the base price has been admitted in the past will, during the accounting period, be put back on to a cost or market price basis, and will be on a par with other concerns which have throughout valued on that basis. If this principle be adopted the Association's claim under (*c*) does not arise, and any possible hardship to the owner is met by the recommendation made later in respect of losses made on realisation of stocks after the end of the last period of assessment.

In an exceptional instance, when it can be proved that a specific quantity of metals has been lying in stock untouched throughout the period of control, we do not consider that the owner's claim to take this same parcel out of control at the price at which it was brought in can successfully be resisted; because, if the theory we have stated is accepted, profits can only be realised by the sale of commodities and no profits can arise by a mere increase in value unaccompanied by a sale.

The claim of the owners for consideration in respect of stock values

arises from their fear (which is probably to some extent justified) that they may be left at the end of the last accounting period with stocks at excessively high prices and perhaps in excessive quantities, and that after the war ends prices may fall rapidly, and they may consequently lose a good deal of money on the conversion and sale of these stocks.

There is no doubt some force in this contention, and it seems only reasonable that, if the Government have taken from the owners a large share of their profits when they were purchasing on a rising market, the owners should not be left the whole of the loss when the natural reaction comes and they are selling on a falling market. If the Excess Profits Duty period extends for not less than twelve months after the end of the war it may be expected that these difficulties will have adjusted themselves within this period; that by that time prices will have found a general "after-the-war" level, and that the excessive quantities, if any, will have been worked off.

To meet this contention, we would strongly recommend that an undertaking should be given to the manufacturers that if the Excess Profits Duty should be repealed within a few months of the end of the war, fair compensation will be given for any loss they can prove to have arisen during the succeeding twelve months by the realisation of these stocks either in their raw or manufactured condition.

The final claim (*d*) made by the Association of Controlled Owners does not arise if their first claim (*a*) is not conceded. If the stock be valued at cost, it is immaterial whether goods bought "forward" at the beginning of control are treated as stock in-hand at that date or as purchases when delivery takes place. We submit, however, that on general grounds this claim is unsound. In most manufacturing businesses contracts for future delivery of necessary materials are made, as a common practice, to ensure that the quantities required are received as and when they are wanted. If all manufacturers who enter into such contracts were to demand delivery on the day on which the contract was made, no one would receive more than a small quota of his contract, because sufficient materials to meet all the contracts would not be in existence in a state in which they could be delivered. Sellers, as well as buyers, make their contracts ahead to ensure delivery of their products as required, and they cannot in a general way deliver them at any earlier dates; consequently, there seems no reason to discriminate between purchases made under long-dated contracts and those made from "hand to mouth," but that both should be taken into account as and when received on the general principle indicated above—namely, cost or market, whichever is the lower.

Signed by the following Chartered Accountants,

A. Lowes Dickinson (Price, Waterhouse & Co.).
F. L. Fisher (Fuller, Wise, Kirby & Fisher).
F. N. Keen (W. B. Keen & Co.).
L. Maltby (Deloitte, Plender, Griffiths & Co.).
R. H. Stainforth (Gray, Stainforth, Newton & Co.).

Ministry of Munitions,
28, Northumberland Avenue, W.C. 2.

INDEX

INDEX

SUPPLEMENTARY NOTES

SUPPLEMENTARY NOTES

After the report had gone to press the writer received from the British Board of Inland Revenue documents containing the most recent interpretations of the Excess Profits Duty. At the same time he received from a representative of the British Treasury a number of corrections and suggestions based on a reading of the proof sheets of the report. The material was of such great importance as to make advisable the insertion of the following notes which have been arranged to correspond with the pages and captions of the report proper.

Page 5. THE MUNITIONS LEVY.—It should be clearly understood that the "control" devices other than the Munitions Levy, were put into operation after the imposition of the Excess Profits Duty and the Excess Mineral Rights Duty.

Page 7. Second paragraph. The last sentence in this paragraph is not intended to imply that controlled firms were not liable to Excess Profits Duty before January 1, 1917. The statement refers to administration.

Page 10. *1915 Act.*—Second paragraph. The statement is made that the British statute specifically excepts "husbandry." It is pointed out elsewhere (page 27) that the exception is restricted to husbandry *in the United Kingdom.*

Page 11. First paragraph. The statement is made that the Duty is a tax on profits arising during the war. As explained later the tax was actually applied in certain cases to profits which arose before the declaration of war (page 34 *et seq.*) and is now being applied to post-war profits (page 22 *et seq.*).

Page 23. 1920 BUDGET PROPOSALS.—The text of the 1920 Finance Act arrived in time to print the portions dealing with the Excess Profits Duty as Appendix B and the portions dealing with the new flat tax on "concerns with limited liability" as Appendix C of this report. It should be noted that the rate of the Duty was fixed at 60 per cent as forecast in the paragraph on page 23.

The continuance of the Duty and the increase of the rate to 60 per cent is accompanied by the establishment of an important series of additional relief provisions. These may be summarized as follows:

(1) The initial exemption of £200 (described *supra*, p. 33 *et seq.*) is increased to £500 "in the case of a trade or business owned or carried on" by a person who was in the service during the war in case the business has been started for the first time or, if discontinued during the war, was restarted after discharge from the service. Section 44 (3). For details, *cf.* Appendix B, *supra.*

(2) The modification in the initial exemption made in 1917 (*cf supra*, p. 34) was based on a limitation in the pre-war standard of £500, together with a fraction involving the figure of £2000: The

new Act raises these figures to £2000 and £4000, respectively. For details, *cf. supra,* Appendix B, section 47).

(3) An important change is made in the standard by which the richness of the profits is tested. The standards previously available are fully described on page 73 *et seq.* The 1920 Act creates a new standard which may be substituted for the old Pre-War Standard (which, it will be recalled may be either the Profits Standard or the Percentage Standard). This new standard, known as *The Substituted Standard,* consists "of an amount equal, in the case of a trade or business which had no pre-war trade year, to the statutory percentage on the average amount of capital employed in the first accounting period, and, in the case of any other trade or business, to the percentage standard, with the addition in either case of a sum of five hundred pounds in respect of each working proprietor in the trade or business." For the various restrictions and provisos, *cf. supra,* Appendix B, Section 45. The most significant point is, of course, the £500 pound allowance for each "working proprietor."

(4) The statutory percentage, described *supra,* pp. 91-93, is increased so as to make the additional allowance for new concerns or for new capital in old concerns five per cent in place of three per cent. *Cf. supra,* Appendix B, section 47.

(5) Finally a closely restricted deduction is permitted for charitable contributions. Such contributions may be deducted not merely by individuals, as with us, but by all businesses. The deduction of such contributions is limited to five per cent of the profits and to twenty per cent of the contributions actually made. *Cf. supra,* Appendix B, section 48.

Page 30. Controlled Establishments.—With respect to the next to the last sentence, *cf.* note under page 5 above.

Page 32. Colonial Double Taxation.—It develops that the arrangement with New Zealand has never matured because of the repeal of the New Zealand duty. An arrangement such as that indicated is now in force with Southern Rhodesia and is under discussion with the commonwealth of Australia.

Page 34. *Rates and Dates of Application.*—*Cf.* discussion of 1920 Finance Act under "Page 23" in these SUPPLEMENTARY NOTES. With respect to the statement that "the two taxes were finally merged in 1917," it should be pointed out that the process consisted of the abandonment of the Munitions Levy and the complete substitution of the Excess Profits Duty.

Pages 36 and 37. The 40 per cent rate for 1921 is a promise but is not statutory under the 1920 Finance Act.

Page 40. *Consolidated Returns.*—Second paragraph. The British require a consolidated return only if the companies are carrying on the same type of business.

Page 47. *Set-off and Re-payment for Bad Years.*—The paragraph beginning "The interpretation of this section" is not strictly accurate. In practice the set-offs in one business against the excess

profits of another in the same ownership is restricted to losses and not to mere deficiencies below the pre-war standard.

Page 60. THE RULES OF THE "WHITE PAPER" OF 1917.—Only part of these rules have actually been put into effect, the remainder being held in abeyance until the final abandonment of the Duty. In fact the business men are not satisfied with either the "White Paper" or the recommendations of the Committee on Financial Risks. The Inland Revenue has recently re-discussed the problem with them and what the final result will be is as yet uncertain.

Page 69. *Capital Gains.*—It develops that the Inland Revenue has never admitted the contention that a profit on a sale of trading stock in bulk could not be taxed.

Page 74. WHEN PRE-WAR PERIOD IS SHORT.—*Cf.*, discussion of 1920 Finance Act under "Page 23" in these SUPPLEMENTARY NOTES.

Page 74. *The Percentage Standard.*—*Ibid.*

Page 78. ALLOWANCES FOR INCREASES OR DECREASES OF INVESTED CAPITAL.—*Ibid.*

Page 81. *Invested Capital—When utilized in British Procedure.*—*Ibid.*

Page 83. BORROWED MONEY EXCLUDED FROM INVESTED CAPITAL.—In last line on page, "deducted from" should read "included in." The provision included in the Corporation Profits Tax of 1920 for distinguishing between permanent and temporary indebtedness is of interest in this connection. *Cf.* Appendix C, *supra.*

Pages 85 and 86. "INADMISSIBLE" ASSETS.—It should be made clear that only type of investment which is ever recognized as "invested capital" are the British war securities.

Pages 90 and 91. GOOD-WILL AND PATENTS.—The case cited at the bottom of page 90 was that of a company engaged in development work.

Page 91. *General.*—Cf. discussion of 1920 Finance Act under "Page 23" in these SUPPLEMENTARY NOTES.

Page 92. Table of statutory percentages. *Ibid.*

Page 101. BOARD OF INLAND REVENUE.—The accountability of the Board of Inland Revenue to the Lords of the Treasury is a disputed point. Some authorities hold that their responsibility is directly to the Chancellor of the Exchequer.

Page 116. APPEALS.—There have been between 40 and 50 appeals to the High Court from decisions of the general or special commissioners.

Page 120. *Appeals to Income Tax Officials.*—The statement that the Special Commissioners are "income tax officials of long standing," is not intended to imply that the incumbents of the office are old income tax officials but that the office of Special Commission is a long-established part of the British income tax machinery.

Page 133. LIST OF INCREASED STATUTORY PERCENTAGES.—*Cf.*, discussion of 1920 Finance Act under "Page 23" in these supplementary notes.

Page 134. The following list shows the increases in the statutory percentage granted since the compilation of the list printed in the text. It should be noted that the 1920 Finance Act increases the basic percentage for new concerns and for new capital in old concerns from 9 and 11 per cent to 11 and 13 per cent.

	Additional Percentage
Aircraft Engines Manufacture	3
Aluminium Production	$1\frac{1}{2}$
Button Manufacture	$2\frac{1}{2}$
Cane Sugar Production (British West Indies)	1
Cinchona (Quinine) Tree Cultivation (East Indies, excluding Indian Empire)	4
City Drainage (Chile)	$1\frac{1}{2}$
Coal Mining (Assam)	4
Coffee-growing (East Indies, excluding Indian Empire)	3
Drapers and General Storekeepers (Brazil)	$1\frac{1}{2}$
Electric Light and Power in Argentine	3
Ferro-concrete Shipbuilding	9
Fireclay Mining	1
Gold Mining in Brazil	7
Iron and Steel, manufacture from scrap (South Africa)	4
Iron Ore Mining in Iberian Peninsula	4
Land in Egypt, Agricultural	3
Land in Egypt, Reclaimed	5
Lead and Zinc Mining (Italy)	2
Manganese Ore Mining (Iberian Peninsula)	$6\frac{1}{2}$
Rice Growing (East Indies)	1
Sisal (East Africa)	4
Spelter Manufacture	1
Teak Wood, Buying, Cutting and Selling (East Indies, excluding Indian Empire)	4
Telephone Service (Colombia)	$1\frac{1}{2}$
Tin Mining (Bolivia)	7
Tin Smelting in the East	$1\frac{1}{2}$
Typewriter Manufacture	3
Weldless and Welded Tubes	1
Wrought Iron Manufacture	1

The American Economic Review

VOLUME X

NEW HAVEN, CONN.
AMERICAN ECONOMIC ASSOCIATION
1920

CONTENTS

ARTICLES:

COMMUNICATIONS:

ARTICLES IN PROCEEDINGS (MARCH, 1920):

REVIEWS OF BOOKS:

TITLES OF NEW BOOKS:

DOCUMENTS, REPORTS, AND LEGISLATION:

PERIODICAL ABSTRACTS:

CONTRIBUTORS

Leading articles are marked (a); communications (c); papers read at the annual meeting, published in the Supplement separately paged, are marked (s); document notes (d); periodical abstracts (p); and all others are reviews.